

the Freeman

Ideas on Liberty

MAY 1969



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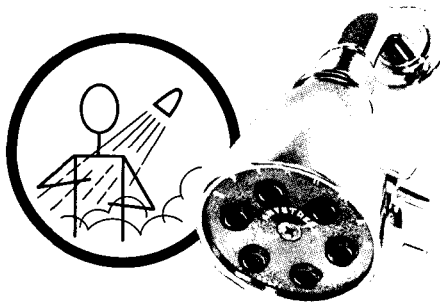


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DEAN RUSSELL



SPEAKMAN 100

Progress: Planned and Unplanned

RUSSIAN COMMISSARS and American businessmen have two compelling objectives in common. They desire the well-being of their families and success in earning their livings. Those are *universal* incentives, deeply ingrained in the basic nature of human beings everywhere.

No lasting society can be developed on a principle that prevents, or even seriously hampers, a person from favoring *his* family (or clan or tribe) over all others, or looking first to *his* career ahead of yours.

That's why communist theory

applied as a *complete* economic and political system can never work in practice. It is based on a concept of morality that is not in harmony with human nature. The communist slogan of selfless equality, "From each according to ability; to each according to need," is simply not how human beings in general feel about other human beings. Man worries first about *his* parents and *his* children and *his* job, in Russia as elsewhere.

We continually repeat the cliché that "man is imperfect." But we don't *really* believe it. For we still follow the utopian schemers whose "perfect" plans depend upon perfect people. Actually, since man really is imperfect, no planner can

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even *define* perfection. He can only express personal preferences.

In the real world, man must first be interested in himself; otherwise, he wouldn't even be alive. Success in his *own* job, whether he is a clerk in a store or a cleric in a church, comes first. But that universal characteristic of human nature is good, not bad. For if ministers and priests and rabbis were not first sincerely interested in succeeding in *their* chosen careers, they couldn't be of any real help to you and me. Unless they recognized a primary obligation to their *own* families, we would be foolish indeed to trust them with ours.

This interest in self and family (in most countries, "extended family") has been the basis of whatever civilization we have been able to develop and maintain. And this human desire to "get ahead" and to help our children do well is still the mainspring of human progress. It isn't that we emotional human beings don't love other children and want to help them — indeed we do! — it is just that our own children come first. We simply do not operate on the instinctive ant level of "one for all and all for one."

Attuned to Reality

The people who base their political and economic systems on

these fundamental motivations of man — self, family, and the accumulation of material possessions to sustain and advance them — are acting in harmony with reality. Thus, they are the people most likely to develop a government and economy (a society) wherein *every* child has the greatest possibility of developing whatever peaceful ambition he may have.

So, let us not deny man; but let us acknowledge him and his nature — and use his own selfish ambitions as the mechanism to advance society in general. How can that be done? Well, the economist and philosopher, Adam Smith, explained the procedure in his famous book that was published in 1776, *The Wealth of Nations*.

Smith observed that merchants and manufacturers try to organize production in such a manner as to create services and products which will give them high profits. "[The producer] intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which is no part of his intentions. . . . By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it." Smith was referring primarily to jobs and to mass-produced goods and services at low prices.

It is self-interest — the human

desire to secure goods and services for himself and his family — that causes the producer to go into business in the first place. If peaceful competition is preserved, and fraud is forbidden, there is only one way that producers can get the products and services (money) they want from us. They must compete with each other to supply products and services we *consumers* want. And, obviously, they must offer them at prices we can pay. In a voluntary exchange, the producer and consumer each would rather have what he is getting than what he is giving up. Thus, the position of each is automatically improved by the exchange. That procedure is firmly based on human nature, and thus it offers the most direct path to desired material progress — the building of hospitals, churches, and schools, as well as the providing of good jobs and sound medical and retirement programs.

A Century of Progress:

Family Plan

Recently, I encountered still another example of the reality of this benefit that comes to society because man is interested first in his own career and family. I was in Wilmington, Delaware, for the annual meeting of the Curran Foundation. A fellow-trustee, Willard A. Speakman, Jr., Chairman

of the Board of the Speakman Company, told me that his firm is celebrating its centennial.

I expressed interest in the story of 100 years of progress by a small family-owned company that competes with several large companies in the field of plumbing fixtures and safety equipment. Naturally, I was then invited for a quick tour of the plant!

During our tour, Bill Speakman explained that the enterprise began in 1869 when his grandfather, Allen Speakman, saw the need for skilled gasfitters and steamfitters. In due course, Allen's son, Willard Allen Speakman, became head of the company. Next, *his* son (my host) became president. And now the fourth generation, Willard A. Speakman, III, holds that position.

The traditional American dream of "going into business for oneself" has been tried by literally millions of free Americans. Most of them failed, quickly and completely. But whether any new business fails or succeeds is of no particular importance to you and me. The vital issue for us is that everyone shall be free to try; there must be no law or tradition that prevents you and me from starting a business that just might be carried forward by our children and grandchildren for a century and more.

Those were the thoughts that

filled my mind while my host was explaining to me the hydraulic principle behind the Speakman shower head. I'm not an interested student of hydraulics. I *was* interested, however, in Bill's explanation of how his company manages to survive among its large competitors.

He claims that a primary reason for the continued existence and growth of the Speakman Company is that its customers know that the firm is family-owned and that the family will go to great lengths to protect its reputation. "Some of our products are, of course, superior to those of our competitors," he said. "But our customers can still choose from several good manufacturers. That's why we stress integrity and service as much as we stress the quality of the product we sell."

The most important information I got from my tour and conversation is that the company employs 500 persons at competitive wages

and without reference to creed or color or politics.

I asked Bill why he had hired those persons. He concluded his lengthy answer by saying, "Actually, when all is said and done, we hired them because we needed them."

I know. As Adam Smith explained it long ago, the producer "intends only his own gain," but the result is that he promotes the interest of society "more effectually than when he really intends to promote it."

The Speakman Company molds brass into plumbing fixtures for a profit; it doesn't interfere in the lives of its employees. The would-be dictator deplores such "selfish" materialism; he wishes to mold human beings into a better society for the benefit of all.

Happy centennial, Bill, and I hope that the Speakman Company is still going strong when the fifth generation is ready to take over. ♦

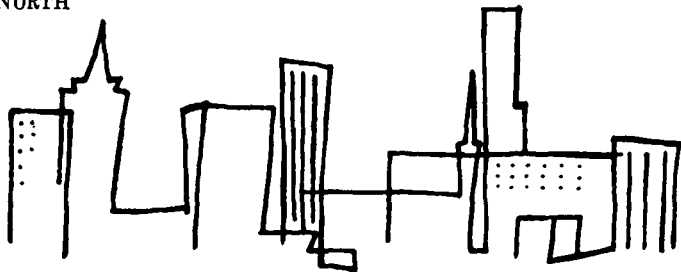
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Achievement

THE INCREASE in per capita consumption in America as compared with conditions a quarter of a century ago is not an achievement of laws and executive orders. It is an accomplishment of businessmen who enlarged the size of their factories or built new ones.

LUDWIG VON MISES, *Planned Chaos*

GARY NORTH



URBAN RENEWAL

and the Doctrine of Sunk Costs

ONE OF THE MOST frustrating experiences in the area of economic reasoning is to explain in detail why a particular government welfare project is economically unsound and therefore wasteful of scarce resources. After giving assent to point after point of the argument, the listener refuses to accept the logical conclusion that the project should be abandoned: "But we can't stop now. We've already sunk too much into it. If we stop now, it would mean that we've lost everything!" On the face of it, this answer seems convincing. So, how does one deal with it?

Take, for example, the urban renewal program. It has been in operation for two decades, and

apparently is a permanent and expanding part of the expenses of the Federal government. Its spectacular failure to accomplish its stated goals—to provide inexpensive housing for low-income groups—has been thoroughly explored in Professor Martin Anderson's study, *The Federal Bulldozer* (M.I.T. Press, 1964). We can ignore here such aspects of the program as the destruction of community bonds which relieve the alienation of urban life, the inevitable result of tearing down old, familiar neighborhoods. We need only point to the conclusion of Professor Anderson: "Most of the new buildings constructed in urban renewal areas are high-rise apartment buildings for high income families; only 6 per cent of the construction is public hous-

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ing." This fact is amply demonstrated: "The median monthly rent of the private apartments built in 1962, which mainly replaced low-rent housing, was \$195." The program has aggravated the housing shortage for these low-income groups by evicting them from their present residences, forcing them to compete for the remaining available space in other neighborhoods. Since the new accommodations are those that were passed over by these people, voluntarily, before they were forced to move, the conclusion is obvious: these people have been coerced by the Federal government to accept living conditions that are less satisfactory to them than those which they previously had occupied.

Between 1950 and 1960, over 125,000 dwellings were destroyed under the auspices of the urban renewal program. Only one-fourth of these have been replaced, and most of these are high-rent units. Professor Mises' warning that state interference into the operation of a free market is likely to produce exactly the reverse of what the planners originally expected is aptly demonstrated by the urban renewal program. It has involved a multibillion-dollar subsidy, as Anderson's book shows, to "upper income people and a few elite groups." Who paid for the

subsidy? Those of us whose taxes went to finance the projects, and those millions of urban poor who were forced to leave their homes by the administrators of the urban renewal program.

Anderson's recommendation is that we phase out the whole program. Let the projects now under construction be completed, but no more. He is aware of the reality of today's politics: the public would not tolerate the program's demise before present projects are finished. Half-completed empty buildings are a standing testimony to failure; neither the public nor Federal planners are likely to accept the implications of that failure. Yet, from the point of view of economic reasoning, those buildings should not be completed at all. At best, they will only benefit special elite groups that can afford other housing; at worst, they will result in actual economic losses, when rents fail to repay the original investment. Why should the public be unwilling to grasp this basic economic fact? Why should the public prefer to waste even more resources on projects that have proved to be unwise in the past? Why not call a halt to the waste immediately? Would it not be wise to offer these projects, as is, to the free market, accepting in payment whatever competitive private bidders would pay? The

state could at least retrieve some of its losses by doing so.

The Sunk Costs Doctrine

The policies of waste are increasingly pursued by those who are well aware of the waste. Political considerations often overshadow economic realities. But there can be no possibility of reform if people will not understand or act upon a basic economic principle: the doctrine of sunk costs. It is not a principle readily grasped through intuition. It involves a careful, systematic line of argumentation, and many people are unwilling to devote the effort to master it. Nevertheless, it is vital that we do so; failure to grasp the issue will cost us heavily.

Let us turn from urban renewal for a moment to the more familiar area of private industry. How does the private entrepreneur make his decisions? At any point in time, he must decide whether or not to continue the projects already underway and whether to begin new projects. He decides on the basis of *expected* profits. What his firm has invested in fixed capital is no longer a relevant economic consideration, amazing as it may seem. What *is* a consideration is the value of the fixed capital if it should be sold *now* or rented *now*, but not what was invested before.

Previous investments are a part of what is called "sunk costs"; that is, they are past costs which no longer enter into economic consideration. Professor Israel Kirzner, in his excellent economics textbook, *Market Theory and the Price System* (Van Nostrand, 1963), explains why and how entrepreneurs make their decisions:

In making these decisions, the entrepreneur must still consider the costs of production necessary for a continuation of production. He must, as in all entrepreneurial decision-making, balance expected revenue against expected costs. But in making this calculation, *he pays no attention whatsoever to the expenses of production that he has already paid out (or that he has irrevocably committed himself to pay)*. What has been paid has been paid.

But in comparing anticipated costs to anticipated revenues, the entrepreneur *pays no heed to those amounts that do not depend on his present decisions*. These past amounts may have been wisely or unwisely incurred, but there is nothing that can be done to alter the past. The aim must be to exploit *now* the favorable position the entrepreneur may find himself in (as a result of the past decisions that now appear to have been wise ones); or to make the best of a poor situation he may find himself in (as a result of past decisions that now appear to have been unwise ones).

The doctrine of sunk costs reminds us of the old truism: there is no use crying over spilt milk. What each planner must do, whether in private business or in government, is to make the best of the alternatives available to him now. If losses are sure to be incurred by continuing in some line of economic endeavor, then the planner should abandon it. For every minute that the project is allowed to function it is taking money out of the business. In other words, it is using up scarce resources when those resources might better be employed to satisfy some other consumer demand (or be used by a more efficient firm to satisfy a given demand more effectively).

The Balloon Analogy

A rather far-fetched analogy might be used here to clarify the meaning of the sunk costs concept. Imagine a man who is suspended from a large helium balloon by a rope. How he got there is irrelevant for our example. It seemed like a good idea at the time. He is now some fourteen feet above the ground. Naturally, he does not want to let go at this point. But the balloon carries him higher, say, to twenty feet. He is now in a worse position than before. The issue which confronts him is simple: shall he let go of the rope

now or later? His decision will be prompted by what he thinks the situation will be in the future: if the balloon is likely to climb higher, he should let go; if it will soon be slowly descending, he should hang on. This much, however, is certain: he failed to drop when he was only fourteen feet off the ground. Perhaps he should have let go then; possibly he now wishes that he had done so. But the fact remains that he did not let go then, and his decision cannot now be based upon any consideration of a fourteen-foot-drop-five-minutes-ago universe. It is the future as compared with the present, not the past, which must determine any rational decision. The past is gone, for better or worse.

Unused Capacity

Along these same lines, we are frequently confronted with the familiar socialist argument that capitalism creates unemployment and permits idle resources. "Look at the deserted steel mills. Under socialism, the government sees to it that all the capacity of the economy is fully utilized." The answer to this line of reasoning involves the concept of sunk costs.

Take the steel mill example. Many mills were built years ago. They were built under an earlier system of technology: the plants may have cost more to construct

than today (not in dollars, of course, but in comparison to the cost of living at that time); the plants were designed for processes of steel production now outdated. They were built under a certain set of assumptions about the state of the economy: the demand for steel, the nature of the competition, the alternative metals that could be substituted for steel, the costs of raw materials and labor, and so on. Some or all of those assumptions have proven erroneous with the passing of time. The plants began to produce losses because the entrepreneurs, being human, were not omniscient at the time when they drew up their plans. They made inaccurate forecasts. Their competitors, who made more accurate forecasts, will have prospered accordingly. Those who made the errors were informed of the mistakes through the operation of the price mechanism on the free market. Instead of compounding their errors by continuing to waste scarce resources in inefficient production processes, they "let go of the rope." That is, they shut down the inefficient mills. Thus, they released raw materials and laborers for the more efficient producers to use. Capitalism, in short, eliminated economic waste; it did so through the profit and loss mechanism of the market.

The socialist wants us to believe

that capitalism is wasteful *because* it permits plants to be shut down by owners. "Look at all the investment that is wasted; capitalists sank so much capital into those projects, and now it is all lost." The argument rests on a half-truth. Yes, that investment is lost. It is lost under *any* system of economics; in fact, it was lost the day the plant was built. The entrepreneurs knew full well that it was lost; the point is that they expected this loss to produce profits in the future. That is the heart of all investment, whether under socialism or capitalism. Scarce resources used for one thing cannot simultaneously be used for another. It is the rational calculation of the free market which tells us whether or not the use of the scarce resources was a wise one, but it is not capitalism as such which destroys the investment.

The fact that under capitalism plants lie empty should be seen as a blessing. Capitalism has permitted us to count the cost of continuing any given process of production. It encourages us to abandon the wasteful processes. The market is a constant reminder to us that there are such things as errors of investment. It reminds us that once a plant is built, we must make the best use of it that we can, and sometimes this means doing *nothing* with it, if doing

something with it ties up additional scarce economic resources and wastes them. The market forces us to examine the probable future results of our decisions, while it encourages us to accept the reality and inescapable finality of those decisions that we have made in the past. Capitalism demands that we make the *best* of a poor decision in the past; socialism, by keeping plants in operation which are wasting scarce resources, permits men to make the *worst* of a poor decision in the past. The "unused capacity" argument is utterly fallacious.

The Stock Market Crash

An economically irrational refusal to acknowledge the validity of the doctrine of sunk costs has led many people to personal financial disaster. Consider the stock market decline of 1929-33. Many investors saw their paper profits collapse after October of 1929 when the inflationary policies of 1922-29 were reversed by officials of the Federal Reserve System. People saw that the general level of prices in the nation was declining, especially stock prices, but they refused to acknowledge the reality of the situation. Instead of considering the possibility that prices might fall even more, they concerned themselves with the amount of money they had put

into their investments. This in turn led them to hold on; the result was financial disaster, as prices continued to skid. The man who refuses to let go of the rope at fourteen feet had better be fairly sure that the balloon is not going to carry him even higher.

The Illusion of Equity

One of the most common of all fallacies involved in the refusal to accept the sunk cost doctrine is that of "equity" in a home. During a depression, or any recession, some owners who want to sell their homes or land refuse to sell at the prevailing prices. They argue, "I have \$5,000 equity in this piece of property; if I sell now, I'll lose it." The fact is that there is nothing tangible or marketable about "equity." Once a mortgage payment is made, it is gone. It entitles one to remain the owner of the property until the next payment falls due. It entitles one to make decisions now as to the sale or retention or rental of the property. But there is nothing known as equity in economic reasoning: you may sell a house for more than you put into it, or less, or the same amount; but the market price is not determined by the amount of money sunk into the property. One cannot have something "in" the home, as if it were a refrigerator stocked with food.

We only have a title to the home which permits us to sell it for whatever we can obtain on the open market. "Equity" is a misleading concept which is stored in people's minds, not something which is in some mysterious way stored in a piece of property.

The Labor Theory of Value

The labor theory of value is a concept analogous to "equity." It assumes that an economic good is worth a given amount of money on the market because a certain quantity of human labor has been invested in producing it. This idea was basic to all economic thought until the advent of the "marginalist-subjective" economics of modern times (1870's). Karl Marx was the last major economist to hold to the position; only Marxists, among serious economists, hold it today. The concept is wrong. A buggy-whip, even if it were made by a painstaking master craftsman, is only worth in 1969 what the market will pay; the quantity of labor involved (which itself is a misapplied concept from mechanics, since there is no way to measure labor) is absolutely irrelevant. The buggy-whip does not have value because of the labor; the labor has value only because of the value the buggy-whip may have on the market. An hour's labor by a brain

surgeon commands a higher price than an hour's services of a ditch-digger (in most economic situations, anyway).

So it is with a factory. The amount of labor invested in its construction is irrelevant, once it is built; the amount of raw materials invested is irrelevant, too. Once it is built, the factory (like the buggy-whip) must be valued in terms of what it can produce on the market or by what it could be sold for, either now or in the future. Profit and loss will determine what is to be done with the factory, not the money already invested in its construction. The doctrine of sunk costs was the inevitable replacement for the labor theory of value. Today, it is only the Marxist entrepreneur or planner who ignores the doctrine of sunk costs; the inefficiency of Soviet planning is, in part, traceable to just this ignorance.

Conclusion

Thus, we should look at any government project with an eye to the present and the future. The *past*, because it is past, is *economically irrelevant*. Unfortunately, the past is *not politically irrelevant*: politicians and bureaucrats may have made specific promises concerning some project. But that is another issue as far as the economist is concerned. If it is a

question of economic waste versus economic benefit, the past must be discarded as part of our thinking. Our concern is in getting the greatest possible benefit from the resources that are available now. For economics, the words of Omar Khayyám are most relevant:

The Moving Finger writes; and,
having writ,
Moves on: nor all your Piety nor
Wit
Shall lure it back to cancel half
a Line,
Nor all your Tears wash out a
Word of it.



HENRY HAZLITT

ONE-SIDED CAPITAL-GAINS TAX

FOR 35 years American taxpayers have been subjected to a cynically one-sided levy on capital gains.

Prior to the stock market collapse and depression of 1929-33, capital gains were taxed as income, and at the same rates. And capital losses were fully deductible against income. But one day J. P. Morgan revealed before a Congressional committee that he had paid no income tax for the preceding year, because his capital losses exceeded his ordinary income.

The statement caused great moral indignation. Yet if capital gains are equivalent to and should

be fully taxable as income, then by the same logic capital losses should be fully deductible against income. But Congress preferred indignation (and more revenues) to logic (and fairness) and one-sidedly "rectified" matters by refusing to allow anybody to deduct more than \$1,000 a year in short-term capital losses against income, though it continued to tax short-term capital gains in full as if they were income.

Congress and successive administrations then launched upon a career of inflation. This has paid the government handsomely at the expense of the taxpayer. The infla-

tionary rise in prices has made nominal money incomes rise. This rise in money incomes has kept putting people all along the line in higher tax brackets where they are automatically subject to higher and higher rates, whether or not their real incomes in purchasing power are any higher.

Inflation has had the further result that people since 1933 have often been paying taxes on capital "gains" that have no real existence.

Suppose you bought stock or real estate for \$10,000 in 1939 and sold it for \$25,600 today. You would be taxed on a capital gain of \$15,600. Actually, as the cost of living has also risen 156 per cent in this period, you would have achieved no real capital gain at all. Your \$25,600 would buy no more than \$10,000 bought in 1939. If you sold your real estate or stock for \$21,000, you would be taxed on a capital gain of \$11,000, though you would have suffered an actual loss in real terms.

Under past and prospective inflation, the present capital-gains tax amounts to a large extent to capital confiscation.

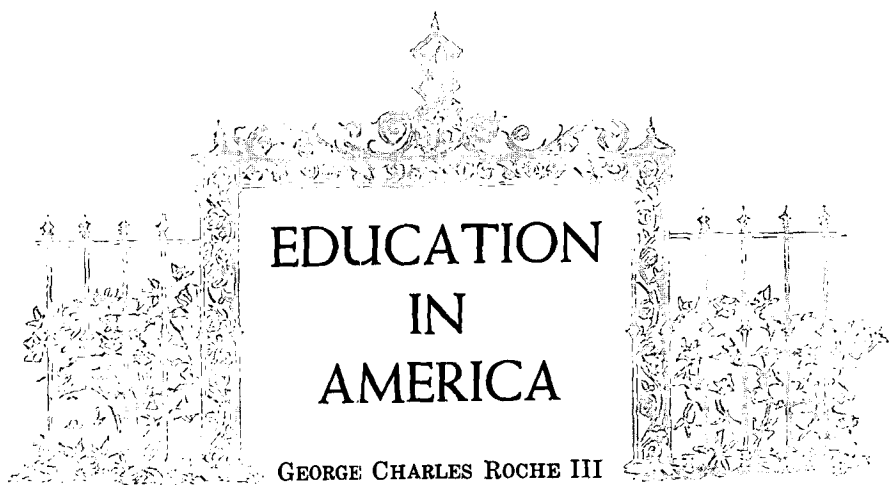
Its harmfulness does not end there. By taxing net money gains in full, and short-term gains at rates up to 77 per cent, with loss deductions only against gains

(except for a token deduction against income) the present system of capital-gains taxation discourages investment, particularly of risk capital. It "locks in" capital. It penalizes investors heavily for transferring investments into new ventures and so retards economic growth.

There are at least a dozen different possible reforms of the capital-gains tax, any one of which would make it less one-sided. I suggest we begin with this one: When a taxpayer sells shares or a piece of property held over a long period, he should be permitted to calculate his real gain (or loss) by deflating his nominal money gain against the increase in the official consumer price index since the year in which he originally acquired the property.

The justice of this way of calculating real capital gains should be obvious. At least the advocacy of such a reform would help to make clear the injustice of the present heavy taxes on grossly inflated or nonexistent capital gains. The government might no longer be able to profiteer so flagrantly, either in capital-gains revenues or in higher income tax rates, from its own inflationary policies. ♦

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8. *The Multiversity*

THE PROPER GOAL of education is the development of the individual; and the great task is to bring the educational structure back to that purpose. Unfortunately, the trend continues in the opposite direction. The multiversity, to use the term coined by Clark Kerr, would appear to be a modern hybrid with a scale of values oriented toward everything but the individual student.

Formerly, the university was regarded as a sanctuary for original and independent thinking.

Dr. Roche is Director of Seminars for the Foundation for Economic Education. He has taught history and philosophy in college and maintains a special interest in American education.

Many centers of higher learning today seem willing to prostitute themselves in pursuit of public funds. Indeed, the race for funds goes far beyond that; it also includes the development of a curriculum featuring the vocational training demanded by the professions and the business community. In short, many of our institutions of higher learning are directing themselves not toward independent inquiry and the development of inquiring individuals, but instead are providing the institutions of our society, both public and private, with the properly "prepared" (though not necessarily educated) graduates needed to

staff our social structure. An "assembly line" is thus set in motion, as the demands of both public and private institutional giants shape the higher learning in America.

Traditionally, academicians have abandoned the market place to better pursue their work; but it has been suggested that "modern America has thrust its academicians back into the commercial arena." Clark Kerr, in *The Uses of the University*, has defined the modern university as "a mechanism . . . held together by administrative rules and powered by money." He adds that "it only pays to produce knowledge if through production it can be put into use better and faster." If everything within the academic community is for sale to the highest bidder, if concentrations of power, public and private, are allowed to establish all the criteria for what constitutes education, then we should not be surprised when bigness displaces the individual and "workability" replaces values.

Meanwhile, the multiversity grows by leaps and bounds. Administration is becoming one of the great academic problems of our times, as "specialists" are added to handle fund raising, public relations, purchasing, and the myriad other technical problems which we have insisted upon mak-

ing a part of higher education. Under the banner of "public service," the giantism of the modern multiversity is becoming the commonplace of American education.

Impersonality

The severe impact of the multiversity upon the student is described by two Berkeley professors who have faced the situation firsthand:

The architects of the multiversity simply have not solved the problem of how to build an institution which not only produces knowledge and knowledgeable people with useful skills but which also enriches and enlightens the lives of its students. . . . By any reasonable standard, the multiversity has not taken its students seriously . . . to many students the whole system seems a perversion of an educational community into a factory designed for the mass processing of men into machines.¹

Often, the impact of the multiversity is equally severe upon the professors. As massive enrollments and expenditures have necessitated a great and growing educational bureaucracy, the traditional small "community of scholars" has gradually deteriorated in many insti-

¹ Sheldon S. Wolin and John H. Schaar, "The Abuses of the Multiversity," Seymour Martin Lipset and Sheldon S. Wolin, eds., *The Berkeley Student Revolt* (New York: Doubleday Anchor, 1965).

tutions into a large group of salaried employees. The great and growing numbers which the multiversity attempts to serve impose great burdens upon student, professor, and administrator alike. And as they rush through their appointed rounds in an effort to keep the gigantic system in operation, they find that each new fall brings larger and larger crowds of students to be digested by the system. The tremendous numbers involved have forced many institutions to use IBM cards and other means of mass processing, further widening the gap between the institution and the individual. The impersonality beginning with registration is maintained in giant survey classes and concluded with anonymous graduations. In many cases students and professors never come to know one another — indeed, the products of such a system are not always worth knowing.

When any institutional framework deals with thousands of persons each day, it is not surprising if there is neither time nor resources for an individualized approach. Yet, can the development of independent judgment and a genuine insight into the human condition be accomplished without a close interaction of teacher and pupil? The answer is no. Thus, many students who are attending

the multiversity in search of an education are being deceived. They find themselves neglected in an institution primarily directed toward the procurement of Federal and foundation research grants and the development of the proper institutional "image."

College and university alike seem to suffer from the same disease. As Robert Hutchins put the case:

The reason is that the students, who have been lured to the college by its proclaimed dedication to liberal education, find on their arrival that the reality is quite different. In reality, the college is, except in size, the same as a university, devoted to training and not to education. . . . Unless the American university is completely reorganized and reoriented it can only mishandle and frustrate the students who reject the mindless mechanism of the academic assembly line; the students, in short, are looking for an education.²

No Easy Solutions

A part of the problem, of course, is due to the sheer magnitude of our institutions of higher learning. Such giantism makes adaptation to change and to individual needs especially difficult. But merely escaping from the giant university to the smaller college

² Robert M. Hutchins, *Los Angeles Times*, Oct. 31, 1966.

is no guarantee of success. The colleges are becoming in many cases little more than satellites to the great universities. Their ideas and attitudes often originate in the large universities; their teachers are usually trained there.

Some institutions are attempting a so-called "cluster-college" approach for re-establishment of faculty-student contact. But the expense involved leads administrators back toward the "greater efficiency" of centralization. They argue that the savings in planning physical facilities for large blocks of students can then be applied in procurement of more and better personnel. In their view, large size becomes a solution to educational problems rather than a problem in itself.

It is true that effective higher education requires fine intellect and scholarship in its teachers, and such teachers are difficult to attract to the small campus when all the money and most of the prestige lie in the great multiversities. In either case, it remains extremely difficult for students to contact fine teachers. Many of the small schools cannot attract such men, and many of the large schools who can attract them are so beset with vast numbers that teacher and pupil seldom have personal contact.

Size introduces a further com-

plication. Many people recognize that a proper background in the so-called "liberal arts" is essential to the development of the whole man, whatever his profession might be. Attempts have been made to mass produce such education through the use of the universal survey course. The result often is a student who knows something about everything and nothing about anything.

Each professor and each department want the whole time of the student so that he can be thoroughly trained in the professor's or the department's specialty. Since it is obviously impossible for the student's whole time to be spent in this way, the course of study is determined by a process of pulling and hauling and finally emerges as a sort of checkerboard across which the bewildered student moves, absorbing from each square, it is hoped, a little of something that each professor or department has to offer him.³

Specialization

Not all of our problems should be laid at the door of mere size and numbers. Higher education labors under other handicaps as well. The pressures of the system drive the good teacher toward such increasingly narrow specialization that the information ceases

³ Robert M. Hutchins, *The Conflict in Education*, pp. 60-61.

to be readily communicable to students. Our highly technical modern world demands specialization. But vocational specialization without understanding of the humanities and liberal arts affords a limited perspective on life. Narrow specialization tends to dehumanize. A man's work is a vital part of his life; but unless that work is kept in touch with the realities of the human condition and in contact with a higher purpose, all difference between man and automaton will have been removed.

Specialized knowledge in the Western world has accomplished miracles through increasing human control over physical environment. Man has achieved power in the process, a power being concentrated in the governmental and private institutional giants of our time. Rewards are high for the specialist. In such a process, however, we run a grave risk of losing the capacities which make us human. A young student of great ability easily may pass through his entire education without encountering the reality of the human condition or establishing his self-identity. Instead, he moves from one superficial consideration to the next, always dependent upon "expert" and "fashionable" opinion, "objectively" studying nothing but the "facts."

Superspecialization further re-

quires a seemingly infinite variety of course offerings in the curriculum. It is true that men are different, but surely there are features of the human condition which are universal and which override all specialization.

Only by maintaining a balance between our experimental bent and our loyalty to the ageless wisdom of our tradition can we hope to remain culturally in the Western orbit. The distinguishing mark of the educated man is his sense of continuity and the awareness of his heritage. As Professor Josef Pieper has the courage to affirm in an age of specialization, a man must be able to comprehend the *totality* of existence.⁴

Specialization also serves as a shield for many within the educational community who do not appear primarily concerned with education. There are some who pursue erudition for its own sake, divorced from any meaning in human existence. They conceal their lack of a philosophy of life behind an endless search for facts. Educational bureaucrats often seem to reflect the victory of the modern specialist over the universally educated man.

But this creates an extraordinarily strange type of man. . . . With a certain apparent justice he will look

⁴ Thomas Molnar, *The Future of Education*, p. 157.

upon himself as "a man who knows." And in fact there is in him a portion of something which, added to many other portions not existing in him, does really constitute knowledge. This is the true inner nature of the specialist, who in the first years of this century has reached the wildest stage of exaggeration. The specialist "knows" very well his own tiny corner of the universe; he is radically ignorant of all the rest. . . . Previously, men could be divided simply into the learned and the ignorant. . . . But your specialist cannot be brought in under either of these two categories. He is not learned, for he is formally ignorant of all that does not enter into his specialty; but neither is he ignorant, because he is "a scientist," and "knows" very well his own tiny portion of the universe. We shall have to say that he is a learned ignoramus, which is a very serious matter, as it implies that he is a person who is ignorant, not in the fashion of the ignorant man, but with all the petulance of one who is learned in his own special line.⁵

At least a portion of the excessive specialization of our time must be blamed upon the fetish of the doctoral degree. But a research degree is far from an assurance that a man is a qualified teacher. In fact, as Irving Babbitt warned forty years ago, "the work that leads to a doctor's degree is

a constant temptation to sacrifice one's growth as a man to one's growth as a specialist."

The superspecialization demanded in our times often leaves the individual, as Ortega says, so specialized that he is ignorant in many facets of human existence, so ignorant that, outside his specialty, he reacts as an unqualified mass-man. Is it possible that professors who speak with such authority in areas outside their disciplines sometimes reflect that lack of training—proving themselves unqualified to exercise leadership outside their narrow specialization?

Publish or Perish

The drive toward superspecialization and the accompanying multiversity quest for "image," serving as means for reaping the appropriate financial rewards available through conformity to the pressures of the gigantic public and private institutional structure, have one of their most unfortunate manifestations in "publish or perish," the proliferation of research and publication for its own sake. One Stanford psychologist has suggested that

. . . before the turn of the century, it will be recognized that radical action is necessary to limit the outpouring of specialized and often trivial publications that even now

⁵ José Ortega y Gasset, *The Revolt of the Masses*, pp. 111-112.

all but inundate the offices of every academician. . . . The most prestigious colleges will begin by making rules forbidding their professors to publish until they have been on the faculty five or even 10 years. They will thus create a campus culture in which publishing is considered not good form.⁶

Though the professor may have had his tongue in cheek, there can be little doubt that a mass of trivial research tends to contaminate the academic atmosphere and bring legitimate research into disrepute. It also interferes with teaching. So long as the high road to academic success is thought to lie exclusively in research, we can scarcely expect faculty members to be properly concerned with the teaching function.

Writing, to be worthwhile, should flow naturally out of scholarship, not be imposed upon it; otherwise this forced labor acquires the status of Christmas cards and is counted, not read. If university administrators were required in their purgatory to read all of the trivia which their policies have produced, they would soon crowd the Gates of Hell clamoring for surcease.⁷

⁶ "Stop Publishing or We'll All Perish," *The Stanford Observer*, March, 1968.

⁷ A. H. Hobbs, "Sociology and Scholarship," *The University Scholar* (University of Pennsylvania), January, 1960.

It is to the everlasting credit of a number of American colleges that they have not bowed to the pressures for research, but instead have kept teaching as their primary goal. Many of our multi-university complexes could profitably note the comparative lack of student unrest in the American college as compared to the American university. An important reason for that difference could be an attitude in many colleges that teaching is a legitimate function of higher education. Independent scholarly inquiry and research are vital to our society and form an important part of our educational process, but we throw out the baby with the bath when we so over-emphasize that function that we come to neglect the means for transmitting our increased knowledge to the rising generation.

Tenure and Promotion

The internal political situation surrounding tenure and promotion can also interfere with the educational process. The trustees of many educational institutions have yielded to faculty pressures until control of the institution is the prize to be won in an open contest between the professors and the administrators. Many administrative positions on campuses have fallen captive to faculty politics. Junior professors often depend for

promotions upon senior departmental members whose self-interest leaves them poorly qualified to judge the merits of another professor.

Such forays into campus and departmental politics at the expense of teaching duties often are encouraged by the tenure situation. The tradition of tenure as a guarantee that the professor can conduct his research and publish his findings without censorship or fear for his job is a vital part of our academic heritage. But tenure was never intended as a protection for the lazy professor who read his last book while a graduate student; nor was its purpose to allow professors to engage in politics while neglecting teaching responsibilities.

Collective Judgment and The Committee

Inside and outside the American academic community, the committee mentality assaults us on every hand. The highest rewards seem to go to organizers and coordinators rather than to genuinely creative and original minds. Our worship of institutions not only gives us the multiversity, but also subjects us to nonthought by committee in the everyday conduct of our affairs.

One glance at pedagogical literature reveals the collectivistic preoc-

cupation: "committee," "cooperation," "integration," "teamwork," "group-project," "majority-objectives," "peer-group," "group-process," "group-imposed regulations," "group-determined penalty," "group-acceptance," etc., etc., abound in articles, speeches, meetings, and school catalogues. Together with other ideological directives, they constitute the affirmation that God and individual man do not exist apart from the collectivity. Moreover, they imply that man's adjustment to the collectivity is the supreme guarantee that he is not in error.⁸

Needless to say, committees are no better as teachers than as administrators.

The Quality of Teaching

University teachers can be and frequently have been vigorous educational forces. The really effective professors prove to be those with a full understanding that genuinely effective college teaching involves far more than lecturing before large survey classes and then quickly disappearing to the library or the faculty club. At least one aspect of the student uprising on campuses has been the teaching failure of the multiversity. In fact, the kind of student protest that emphasizes body English and mass movements in

⁸ Thomas Molnar, *The Future of Education*, p. 134.

place of responsible individual thought and action demonstrates how little genuine education those students have received.

Students are more than great masses of IBM cards and administrative problems; they are far more than mere containers into which academic information should be dumped. Their value to society, their value to themselves,

and their capacity for education are deeply affected by the capacity of the university to deal with them as individuals. If the many well-qualified and highly motivated administrators and professors within higher education are to be given an opportunity to reach their students, we must reverse the trend toward the multiversity with all its negative effects. ♦

*The next article of this series will ask
"Academic Freedom for What?"*

Activist Judges



and the Rule of Law

EDWARD F. CUMMERFORD

THE FORMAL BOUNDARY between responsible self-government on the one side and tyranny or anarchy on the other is often termed "the rule of law." Never has that tenuous line been in such danger of obliteration in this country. The rule of law is mocked and attacked, not only by the criminal multitude but by supposedly responsi-

ble elements. Educators and clergy urge us to break laws we do not like, and eager mobs implement their ideas with destructive violence; labor unions violate laws that impinge upon their power and defy court orders usually with impunity; public officials blandly refuse to enforce the law if their political futures might suffer.

But ironically, it is within the courts themselves that the most serious threat to the rule of law has developed. This comes from a

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radically new concept of the judicial function called "activism." Judicial activism had its genesis in the Supreme Court about 25 years ago, when some of the Justices began to abandon the age-old principle of *stare decisis* upon which American and English law had been based for centuries. *Stare decisis* meant simply that the principles derived from previous decisions formed a body of controlling law for future decisions. The primary duty of the judge, after the facts of a case were determined, was to find the law applicable to such facts and decide accordingly, regardless of his personal feelings. On this system rested what Americans proudly called "a government of laws and not of men."

Judicial activism means that judges strive for what they deem a "just" result in a case in the light of their own philosophies and socio-economic values, with settled legal principles being accorded little or no weight. Thus, decisions turn more and more upon "who" is the judge than upon "what" is the law. As a result, law is rapidly losing its certainty, stability, and continuity. Jurisprudence is becoming the handmaiden of sociology.

This concept of the judicial function reaches its apogee in the doctrine, if that is what it may

be called, that even the meaning of the Constitution itself may be changed by the Supreme Court if necessary to achieve "justice" or "equality." While the power of the Court to clarify parts of the Constitution in the first instance cannot be doubted, it is no corollary that the Court may, at its pleasure, keep changing such meaning. The Constitution specifically provides for its own amendment with procedures that completely exclude the Supreme Court.

Some contemporary pseudo-scholars of the law would have us believe that judicial activism is a proper function of courts, entirely consistent with the historical development of law. This is just not true.

Will of the Law

Let us consider what some of the leading legal minds of the past, men whom proponents of activism claim as philosophical antecedents, have thought about the question. John Marshall, our greatest Chief Justice, declared bluntly in a landmark case: "Judicial power is never exercised for the purpose of giving effect to the will of the judge; always for the purpose of giving effect to the will of the legislature; or in other words, to the will of the law." Charles Evans Hughes, usually ranked second only to Marshall among Chief Jus-

tices, is often cited as an authority for the notion that the Supreme Court can change the meaning of the Constitution. This is based on a fragment from an extemporaneous speech in 1907 — “the Constitution is what the judges say it is.” Mr. Hughes angrily denied having meant any such thing, but the out-of-context words plagued him for the rest of his life and to this day are quoted in textbooks and by professors to justify a concept he abhorred.

Oliver Wendell Holmes, a most influential legal scholar and for 30 years a Supreme Court Justice, maintained that judges should keep their own social and economic views out of decision-making. Benjamin N. Cardozo, Mr. Holmes’ disciple and successor on the Court, set forth in painstaking detail the historical and philosophical criteria to be employed by judges in reaching decisions. A liberal like Justice Holmes, he did not believe that the law must be static and never change.

He would have been shocked, however, at decisions that lightly discard decades of settled law on the strength of sociological or economic theories. Justice Cardozo observed: “Lawyers who are unwilling to study the law as it is, may discover, as they think, that study is unnecessary; sentiment or benevolence or some vague notion

of social welfare becomes the only equipment needed. I hardly need to say that this is not my point of view.”

Sir Frederick Pollock, probably the chief authority in modern times on Anglo-American jurisprudence, repeatedly cautioned that judges should follow established precedents and legislative intent, not their personal views, in reaching decisions. Two other important jurist-scholars, Felix Frankfurter and Learned Hand, were extremely critical of judicial activism. Mr. Frankfurter, a protégé of Holmes, went on the Supreme Court a “liberal” in 1939 and retired a “conservative” in 1962 — but it was the Court, not Mr. Frankfurter, which had undergone the greater change. Justice Harlan speaks of the idea that all social ills can be cured by courts as having “subtle capacity for serious mischief.”

Pure Guesswork

The criticism is not confined to Olympian levels. The legal profession finds it increasingly difficult to know just what the “law” is; hence, attorneys cannot advise clients of the merits of their cases with much assurance. If the outcome of a case depends more on the personal philosophy of the judge than on any other consideration, it is pure guesswork. What

was once "Constitutional" suddenly becomes "unconstitutional." Countless Supreme Court decisions are by 5-to-4 votes, often accompanied by several different opinions and bitter, sarcastic dissents. This is the precarious state of law today.

Some activist judges go to great lengths to make sure that they will not be thought of as having unbiased minds. In speeches, articles, and letters to editors they frequently take positions on controversial questions. High-ranking judges have even publicly expressed opinions on delicate questions involved in cases awaiting decisions in their own courts — judicial behavior that a generation ago would have been considered reprehensible.

No matter what euphemisms are employed to disguise its effects, careful reflection must lead to only one conclusion: Judicial activism is not merely inconsistent with the rule of law, it is the total negation of the rule of law. If cases are decided on the personal philosophies of judges, then in reality there is no law. If the Constitution has no objective meaning but means only what judges think it ought to mean, it is not a constitution at all but an empty symbol, a sort of national totem. History shows that vague laws, subjectively interpreted and arbi-

trarily applied, are the tools of tyrants. The equation is as old as the human race — power minus responsibility equals despotism.

Out of the vast crucible of human experience and travail we have constructed a splendid system of law and courts that it is our duty to sustain and improve. The beating heart of that system is the judge. If his mind is a closed one, which recognizes no authority save his own predilections, then all the long shelves filled with lawbooks, the great marble columns and the black robes are but superficial trappings cloaking a travesty.

Judges, like other mortals, need a large measure of humility — the conviction that one human mind can embrace but a tiny particle of all wisdom and knowledge. As one of our most respected living judges, Harold R. Medina, has expressed it so well: "I don't think I have any propensity or desire to mold the law to my own views . . . if I had a question of statutory interpretation and I was convinced the statute meant, and was intended to mean, one thing, I would never decide it meant just the opposite because I thought it was desirable social or economic policy to do so. This twisting and stretching is not for me."

Nor should it be for any judge. ♦

The Out-of-Bounds Dilemma

LEONARD E. READ

THE CITIZENRY establishes and empowers government to codify the taboos and enforce their observation; certain actions are ruled out of bounds, and government is given the job of punishing transgressors. In good American theory any action by any citizen is out of bounds if it be destructive: murder, theft, misrepresentation, and the like. Stay within bounds or suffer the consequences.

Everything human is subject to corruption; situations get out of hand.

It's easy enough for the citizenry to delegate the policing task to the formal agency of society, but quite another matter for the citizenry to keep the agency itself within bounds. For, short of anything yet accomplished in history, the agency will, sooner or later, declare out of bounds not only

destructive actions but various creative and productive actions as well. Two among countless examples: It is out of bounds to raise as much wheat as you please on your own land and, in New York City, at least, to mutually agree with your tenant what rental he shall pay. In a word, government, having a monopoly of the police force, will tend to act indiscriminately in its out-of-bounds edicts. And, it has always been thus:

. . . the greatest political problem facing the world today is . . . how to curb the oppressive power of government, how to keep it within reasonable bounds. This is a problem that has engaged some of the greatest minds of the eighteenth and nineteenth centuries — Adam Smith, von Humboldt, de Tocqueville, John Stuart Mill, Herbert Spencer. They addressed themselves to this particu-

lar issue: What are the proper limits of government? And how can we hold government within those limits?¹

The dilemma seems to be that government is something we can't get along without and something we can't get along with.

Considering the great men who have attempted to resolve this dilemma, it seems unlikely that any one of us will hit upon a final solution. But we can and should entertain the hope of shedding a bit more light on the matter. My effort is no more pretentious than this.

During the last century, several of the best American academicians and statesmen—in an effort to prescribe a theory of governmental limitation—have agreed:

The government should do only those things which private citizens cannot do for themselves, or which they cannot do so well for themselves.

That this is meant to be a precise theory of limitation is conveyed by the words, "do *only* those things."

This proposal is repeated over and over again and we may therefore presume that it has a con-

siderable acceptance and is influential in shaping public opinion as to what is and is not out of bounds in governmental activity. If that be the case, in the light of what's going on, we are well advised to re-examine this proposition. For it is true that all actions are rooted in ideas.

Parenthetically, one may wonder why I choose to pick on a small flaw in what, after all, is little more than an aphorism. It is my contention that this idea of limitation "leaks," like a leak in the dike, and if not plugged, the whole countryside will be inundated. A trifle, yes, but as great oaks from little acorns grow, so do great catastrophes from little errors flow:

For the want of a nail the shoe
was lost,
For the want of a shoe a horse
was lost,
For the want of a horse a rider
was lost,
For the want of a rider the battle
was lost,
For the want of a battle the
kingdom was lost—
And all for the want of a
horseshoe-nail.

The aforementioned notion gains acceptance because it is so plausible. The government should, indeed, do some of the things which private citizens cannot do for themselves. All citizens, except

¹ Excerpted from remarks by Henry Hazlitt. See *What's Past Is Prologue* (Irvington, N. Y.: The Foundation for Economic Education, 1968), p. 14.

philosophical anarchists — those who reject a formal agency of society — are certain, in the interest of social order and common justice, that each citizen cannot write his own laws. Man is now and forever imperfect and men must now and forever differ as to what is right and just. Codifying and enforcing an observation of the taboos gives the citizenry a common body of rules which permits the game to go on; this is what a formal agency of society can do for the citizens that they cannot, one by one, do for themselves. Doubtless, this is what the libertarian subscribers to this idea have in mind. And no more! They couldn't concede more and be libertarians!

A Leak in the Dike

This proposal is right as far as it goes; but it does not go far enough. It has a loophole, a "leak," through which an authoritarian can wriggle.

One can easily conclude, from the wording, that government is warranted in doing for the citizens only those things which the citizens will not and, presumably, cannot do for themselves. What they will not do and, therefore, "cannot" do for themselves is to implement all the utopian schemes that enter the minds of men, things that such schemers think

the citizens ought to do but which the citizens do not want to do. Reform ideas are legion; and these are the things that government is obliged to do for the people, according to this proposal, as it is loosely written. That's how permissive it is; it leaves the door wide open; it's "only" is utterly meaningless!

Reflect on the veritable flood of taboos — against other than destructive actions — now imposed on the citizenry by Federal, state, and local governments. And all in the name of doing for the people what they "cannot" do for themselves. In reality, this means doing for them what they do not wish to do for themselves. Here are but a few of many examples of things now out of bounds for American citizens:

- It is against the law to grow as much wheat or cotton or peanuts or tobacco as you choose on your own land.
- It is against the law, regardless of where you live, to refuse to finance thousands upon thousands of local fancies such as the Gateway Arch in St. Louis or the Fresno Mall.
- It is against the law to refuse to finance the rebuilding of urban centers deserted in favor of new and more preferable centers.
- It is against the law to refuse to finance putting men on the moon or

tracing the meanderings of polar bears in the Arctic.²

- It is against the law to refuse to finance socialistic governments the world over.

- It is against the law to be self-responsible exclusively, that is, to refuse to be responsible for the welfare, security, and prosperity of anybody and everybody, no matter who or what they are.

How might we state this idea, then, in a way that will be understood and which, if followed, would restore government to its principled, limited role — keep it within bounds? Consider this:

The government should do only those things, *in defense of life and property*, which things private citizens cannot properly do each man for himself.

The only things private citizens cannot properly do for themselves is to codify destructive actions and enforce their observance, be the destructive actions of domestic or foreign origin.

**Maintain Law and Order;
All Else Leave to Choice**

Neither the individual citizen nor any number of them in private combination — vigilance committees — can properly write and enforce the law. This is a job for

government; and it means that the sole function of government is to maintain law and order, that is, to keep the peace. This in itself is an enormous undertaking, requiring rare and difficult skills, but it is a task much neglected when government steps out of bounds. When society's formal agency of coercion moves in and out of bounds, it becomes impotent to keep the peace among its own citizenry or among nations.

All else — an infinity of unimaginable activities — is properly within the realm of personal choice: individuals acting cooperatively, competitively, voluntarily, privately, as they freely choose. In a nutshell, this amended proposal charges government with the responsibility to inhibit destructive actions — its sole competency — with private citizens acting creatively in any way they please.

The objections to this latter proposal are legion; indeed, they are almost as prevalent in the U.S.A. today as in Uruguay, England, Argentina, Russia, or any other country one could mention. How, possibly, could we educate our children? Or run the railroads? Or deliver mail? Or put men on the moon? Or secure medical attention or welfare in old age? Or have a Gateway Arch? On and on! Yet, every one of these objections can be and has been answered!

² See "The Migration of Polar Bears," *Scientific American*, February, 1968.

Putting Men on the Moon

The government is engaged in countless out-of-bounds activities, according to our rewritten proposal. None of these is more favorably capturing the American imagination than putting men on the moon.³ Even many individuals otherwise sharply libertarian in their thinking are joining in the applause for this fantastic performance. And no one can reckon the enormous cost; it is running into untold billions. So, let's examine this most popular instance of government out of bounds.

It is self-evident that citizens acting privately would not, at this time, engage in this enterprise. This is an example of what private citizens will not do rather than something they cannot do.

Why is it so widely assumed that going to the moon is something private citizens cannot do for themselves?

Is it because they do not have the countless billions required for the project? No, the government gets its resources exclusively from the private citizens; none from any other source whatsoever!

Is it because the skills do not

exist among private citizens? No, every last person engaged in this project was a private citizen, many of whom are now on the government payroll.

Is it because a free-market enterprise is less efficient than a governmental operation? No, in every type of productive effort in which both are engaged, making comparisons possible, the free market is overwhelmingly superior.

We can only conclude that going to the moon is a project private citizens could undertake but will not, voluntarily.

Why? Simply because they do not want to. Nor is the explanation difficult. I have a thousand and one opportunities for the use of my income more attractive to me than sending men to the moon. This is far down on my priority list, not only as to desirability, but as to the amount I would voluntarily contribute — about the amount I would pay to see a good show. And I believe that a vast majority of private citizens — viewing the matter on this basis — substantially share my appraisal. The upshot, if left to private citizens? No trips to the moon! Not now, anyway.

How can we render a judgment as to what private citizens really favor? Surely not by yeas or nays; most of us are too distraction-prone for mere lip service to be

³ If the defense of our country required putting men on the moon, it would then qualify as a proper function of government. I am assuming that manning the moon is not of military value. At least, I am unaware of any persuasive argument that it is.

trusted. So, let us judge a man's values by the way he acts: A person favors a war if he will voluntarily risk his life in waging it; and he favors an enterprise if he will voluntarily risk his capital in financing it. Popular acclaim for a war or a moon venture or whatever, which rests on risking the lives or the capital of others, is unimpressive; it's only loose talk, detached from realism, and unworthy of serious attention. Viewed in this light, there are few, indeed, who favor putting men on the moon, their protestations to the contrary notwithstanding!

Why, then, are we in this venture? There are numerous reasons.

For one thing, people are distracted and drawn by the glamor of it. Not even the fiction of Jules Verne or Buck Rogers ever remotely approached this performance. The TV shots of men in space divert attention from the means used to produce this spectacular.

Of the millions who do not favor putting men on the moon at the risk of their own capital, many enthusiastically endorse the project when the risk seems to fall elsewhere. Why do they not see that this is, in reality, their own capital?

Again, because of distractions. Citizens are distracted from reality by the false promise that

they can spend themselves rich. They will believe such sophistry simply because they want to believe it. Doesn't the Gross National Product (GNP) go up \$1 billion with each billion spent on the moon venture!⁴

Then there is the sleight-of-hand expropriation of capital. That portion of one's capital taken for the moon venture by direct tax levies is so buried in the enormous Federal tax that identity is lost. The remaining portion is equally hidden: inflation. Inflation is a tax on savings of many types.⁵ The expropriation shows up not on a tax bill from the Internal Revenue Service but in the form of higher prices for bread, butter, and everything else. Who, when spending \$10 for groceries, instead of the \$5 he used to spend, relates the higher prices to putting men on the moon? This fiscal hocus-pocus is distracting and diverts men from reality. "We do not know what is happening to us and that is precisely the thing that is happening to us."⁶

⁴ For the fallacy of GNP, see Chapter VII, "The Measure of Growth," in my *Deeper Than You Think* (Irvington-on-Hudson, N. Y.: The Foundation for Economic Education, Inc., 1967).

⁵ For example: cash, bank deposits, life insurance, pensions, bonds, mortgages, loans or holdings repayable in a more or less fixed number of dollars.

⁶ See *Man and Crisis* by Ortega y Gasset (New York: W. W. Norton & Company, Inc., 1962).

But our proneness to distraction, which accounts for popular acceptance of this project, is far from a complete explanation as to why we are in it. The primary reason is that we allow government coercively to commandeer resources that private citizens will not voluntarily commit to such purposes. In other words, private citizens are forced to do things they do not wish to do.

My purpose in this cursory analysis of the moon affair is not to single it out for criticism but, rather, to raise the all-important question that relates not only to this but to thousands of out-of-bounds ventures by government: Why are private citizens forced to do what they do not wish to do? After all, the formal coercive agency of society — government — is *their* agency!

We have one test, and one only, for what private citizens really wish to do: those things they will do voluntarily! It is plain that they

wish telephones, printing presses, automobiles, air service, refrigeration, houses, corn flakes, gas and electric service; indeed, a million things could be listed. And they get them — voluntarily!

But here's the rub: There are those who believe we do not know of all the things we want or, at least, are unaware of what is good for us. These "needs," invented for us — going to the moon, old-age "security," the Gateway Arch, or whatever — have no manner of implementation except by coercion. In a word, these people who would be our gods can achieve the ends they have in mind for us only as they gain control of our agency of force: government.

And the primary reason why they can force upon us those things we do not want is our lack of attention to what are the proper bounds of government.

So it is that great catastrophes from little errors flow! ◆

A Suggestion —

FREDERIC BASTIAT, the French economist, journalist, and statesman, must be ranked among the masters in presenting the rationale for limited government. His treatise, *The Law* (\$1.00), along with Dean Russell's *Frederic Bastiat: Ideas and Influence* (\$2.00), are highly commended.

Order from: The Foundation for Economic Education, Inc.
Irvington-on-Hudson, New York 10533



WILLIAM HENRY CHAMBERLIN

A MODERN ECONOMY is a complex machine that requires for smooth and efficient operation a powerful smoothly functioning dynamo. The necessary component parts of this dynamo are private property and ownership, willingness to save and invest, wage and salary incentives adjusted for work of differing degrees of skill, diligence, and efficiency and, last but by no means least, a reasonable opportunity to earn a profit. Let all those factors function and a productive, efficient economic operation is assured. Tamper with one or more of them, and trouble is in sight.

There have been many examples of this in modern times, of which the most remarkable, on the fa-

vorable constructive side, is the German recovery from the ruin and desolation of World War II. To some extent under the Nazi rule and to an increasing extent after the outbreak of war, Germany lived under a regimented economy. The evil consequences which this always brings to the consumer were, of course, aggravated by unprecedented devastation of the larger cities and towns by air bombardment.

The Germany taken over by the Allies after the surrender in the spring of 1945 was a shambles, the cities in ruins, practically no motor transport except as brought in by the occupation powers, industrial output at a standstill, the only functioning hotels or places of public accommodation being those requisitioned by the Allied authorities.

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Most important of all, perhaps, the essential lifeblood of industry and commerce — a currency with some stability of value — had been another war casualty. Nazi finance during the war had been more and more inflationary. And the occupiers, partly by design, partly by negligence, completed what the Nazis had begun, issuing vast quantities of irredeemable and essentially worthless marks.

The result was that during the first years after the end of the war German currency had become, for all practical purposes, as worthless as it was in the great inflation of 1922-23 when a dollar could buy as much as a trillion marks. Since some medium of exchange was necessary, a lively informal substitute was found in cigarettes. A tip in paper marks was scorned, while a gift of a few cigarettes was gratefully received.

Fortunately, the Morgenthau Plan, with its underlying idea of destroying Germany's mines and heavy industries, was never put into full effect. But enough of its vindictive spirit got into early prohibitions and limitations on industrial output to discourage any reasonable hope of recovery. All the elements essential to the functioning of the industrial dynamo were destroyed; and the Germans, naturally one of the most industrious of peoples, had

no real incentive to get back to peaceful labor.

The Curative Power of Freedom Is Demonstrated

It was against this dreary and desolate background that the genius of one man, Ludwig Erhard, Minister of Economics in the re-viving German Government, hit on the idea that made possible Germany's amazing advance, literally, from rags to riches. The idea was to restore the missing dynamo to the stalled economy. First, there was a currency reform, harsh but necessary and inevitable. The substance of the reform was that the one new mark was issued for every 16 old marks. But the old marks were practically worthless and the new marks were real money, good for purchases in stores.

Next came the complete scrapping of rationing and controls. Self-government was being returned gradually and the German authorities were not permitted to change any single fixed price or fixed wage. But there was a loophole; the whole system could be swept away with impunity. Probably it was felt that no German would venture to take such a drastic step. But Erhard was prepared to make this bold wager on the curative power of economic freedom.

When General Clay, military Governor of the American Zone, informed Erhard that all the American economic experts were gravely concerned about the consequences of throwing away such political crutches as price and wage control, Erhard replied: "So are mine." But the economic experiment was allowed to stand and may be largely credited for what was often called "The Economic Miracle."

In the first years, there were moments of touch-and-go; Erhard was obliged to set about promoting the reconstruction of the national economy with painfully thin reserves. A sharp rise in prices seemed to threaten the experiment; some bureaucrats began to dust off old schemes for rationing and price control. But Erhard believed that the free market carried its own cure. As prices rose, so did production. Through the 1950's, Germany maintained one of the most stable price levels in the world. One victory for the free economy followed another. The Federal Republic began to sweep ahead of the whole of prewar Germany in production and exports. From a country that was virtually bankrupt when its new currency was launched, Germany became a magnet, drawing gold from all over the world because of its consistently favorable balance of pay-

ments. The visible standard of living showed steady growth. Germany owes its postwar political stability, so different from the picture of left-wing and right-wing extremism under the Weimar Republic, to Erhard's logically applied philosophy of a capitalist market economy.

Despite these accomplishments in freedom, a noisy, violent minority of German students express their ingratitude and lack of understanding in current exaltation of primitive communists like Che Guevara and Mao Tse-tung and the denunciations of capitalism and free enterprise.

What's Wrong with Britain?

While Germany since the war has given the most convincing practical demonstration of the immense creative power of the free market and of the dynamic quality of the profit motive, other countries have moved in a different direction. On repeated visits to Britain since the war, with varying time intervals between them, I have invariably found British economists and publicists concerned with the question: "What's the matter with Britain?"

The most obvious symptom of what people on the European continent sometimes call "the British disease" is the chronic inability of this country, renowned as the

workshop of the world in the early phase of the Industrial Revolution, to square its international accounts, to equalize its balance of payments. Not only has Britain carried out a reduction in the value of the pound from \$2.80 to \$2.40, but there are frequent rumors that the devaluation dose will have to be repeated, in one form or another. The internationally respected weekly, *The Economist*, recently came out in favor of a "floating pound," not tied to a fixed rate of exchange. It is easy to imagine the direction in which the pound, in view of its persistent weakness, would almost certainly "float."

While London remains one of the liveliest of European capitals and Britain is a magnet for American and other tourists, symptoms of the "British economic disease" are evident on every hand. Two of the most obvious are the slack, indifferent tempo of work and the frequency with which work is stopped or slowed down, often for the most frivolous causes. On a recent visit I met two English couples who were settling down for residence in their native country after long periods of assignment abroad. Both had remarkably similar stories to tell of the extreme difficulty of obtaining reliable service from carpenters, repairmen, and other workers who were needed for refurbishing

houses and apartments. There is a familiar British postwar saying that seems to express the philosophy of these workers: "I couldn't care less."

An item from a British newspaper speaks for itself:

"Thieves made off one night with a pile of unwatched scaffolding. The police noted that the thieves completed the removal in half the time regular workers would have required for the job."

Strike Losses

Another feature of British industrial life is the frequency with which some service is interrupted by irregular or wildcat strikes, often called for such causes as how long the "tea break" should be, members of which union should be entitled to drive screws in a construction job, or some other local issue over which management or the proverbial innocent bystander — the public — can exercise little, if any, control. The economic loss inflicted on the national economy, including the damage to industries not directly affected, is analyzed as follows in a recent issue of *The Economist*:

"Over 90% of strikes in this country are of the genre known as 'unofficial' stoppages, which means that they are generally called without notice by whoever is at that moment the effective

holder of power on any particular factory's floor. . . . The great majority of strikes in other countries take place at the end of a union's one-year or two-year or three-year contract. . . . The industrial disruption caused by such end-of-contract strikes is a tiny fraction of the disruption caused in Britain when suddenly — because of some row about a tea break — many motor factories have no brakes to install. That is why Britain has lost more of its national income through strikes in the 1960's than other industrial countries. The familiar figures purporting to show the opposite deliberately count only man-hours directly spent on strike and not the much more important consequent loss of work through interruption of supplies; they are a blatant British exercise in national self-delusion."

Taxes Kill Incentives

Overshadowing and, indeed, accounting for many other negative aspects of the British economic scene, the low working morale, the frequent irregular interruptions of normal working hours, the slowness of labor and management alike to accept innovations calculated to speed up productivity, is the incentive-killing system of taxation which often leads to counterproductive results.

The famous British historian, Macaulay, once observed that the Puritans objected to the cruel sport of "bear-baiting" not because it gave pain to the bear, but because it gave pleasure to the spectators; and some of this alleged Puritan psychology seems to have entered into the framing of British taxation. (There is no reason for Americans to feel self-righteous on this count; the trend toward skyrocketing costs of Federal, state, and municipal government, unless checked, may shortly find taxes as burdensome in America as they are in Britain today.)

Nothing is more essential to the functioning of the economic dynamo that drives the machine to ever-higher standards of productivity than the element of incentive for all involved in the working process. Such incentives in Britain today have been diminished almost to the vanishing point. There have been cases when wealthy Britons have felt obliged to emigrate in their late years, because their death in Britain would leave their heirs only confiscatory inheritance taxes, or death duties, as the British call them.

Some British films have been high earners of desired dollars and other foreign currencies. But so savage are the levies on high incomes that British film producers will sometimes not go to the

trouble and labor of turning out a second film. Workers in factory and mine have little interest in qualifying for more skilled jobs because this means transfer to a higher bracket in taxation. The rewards to management are too small, after taxes, to encourage the maximum effort that would vastly aid the lagging balance of payments.

Britons often express regret over the tendency of young scientists, doctors, and other professional men who contribute so much to a country's assets to seek greener pastures in the United States, Canada, and Australia. Taxes are not the whole story; superior research facilities and other considerations also play a part. But the lack of adequate material rewards, due largely to excessive taxation, is a most important factor.

Similar Problems in the U.S.

Even occasional glimpses of the sputtering British economic dynamo (further affected by continuous inflation; one British acquaintance remarked: "It would make as much sense to save last year's snow as the pound sterling.") convey the impression that a vicious circle has been created. The fierce incidence of taxation discourages the extra effort that would enormously improve nation-

al productivity and encourages the "couldn't care less" mentality, affording no help in a struggle to maintain a stable currency and an even balance of payments.

One need not look far to see a similar trend toward those twin evils — government overspending and increasing taxation — in the United States. The Federal tax rate in this country still falls short of the British, although it contains such features, weighted against the saver, as the capital gains tax, undue reliance on direct as against indirect forms of taxation, and the double taxation at the individual and corporation level of sums paid out as dividends.

But the United States taxpayer must reckon on additional pillage at the hands of state and municipal authorities. (For all practical purposes he has lost control of the right to determine the level of his own taxes, one of the primary issues of the American Revolution.) Massachusetts, the state with which I am most familiar, during the last decade has set a record of financial mismanagement which would arouse the envy of the proverbial drunken sailor; and New York and other states which specialize in extravagant "welfare" programs of subsidized idleness are little, if at all, behind.

In Massachusetts, with the

merry cooperation of Republican governors and Democratic legislatures, the cost of running the state has trebled within the last ten years. The proceeds of a new tax are exhausted as soon as the levy is imposed; there have been three tax increases in the last four years.

The financial resources of the middle class are becoming ex-

hausted; taxation increasingly removes incentives and discourages production. Unless American taxpayers find some means of curbing the monstrous extravagance of the Federal and state welfare programs, with their false promises of something for nothing, the American economic dynamo, like the British, will sputter and fail. ♦

\$pend Now, Pay Later

PAUL L. POIROT

WIDESPREAD CONFUSION concerning money and credit affords the illusion that certain burdens of government spending, such as the costs of fighting a war, can be postponed more or less indefinitely, at least, until peace again prevails.

If a man's automobile is stolen, there is no reason for him to think that the impact of his loss may be postponed, that it may be several months or even years before he actually misses his car. Or, possibly he sells his car, but then finds himself holding a worthless check while car and "buyer" have disap-

peared. Right away, he understands that he has lost a car. Or, instead of by check, he finds that he has been paid in counterfeit bills. His car is gone for nothing, and he knows it at once.

It's possible that the thief or check passer or counterfeiter may have the use of the car for some time before he is apprehended and obliged to pay. But, surely, that crooked way of postponing costs can have no widespread appeal. Nor can a durable society be founded on the principle of stealing from one another; all too soon there would be nothing to steal.

Now, suppose the government appropriates the car in the interest of national defense — simply takes it from the rightful owner. Will the man reason with himself that he won't miss the car until after the war? No one really labors under such an illusion, and well do politicians know it.

Instead of simply confiscating the man's car, the national government pays him for it — or gives him its bond or other promise to pay. There begins the illusion. Whereas, in fact, one car has been withdrawn from the market supply of goods and services available to customers, no potential buyer is aware that he then and there has lost that much purchasing power. Shortly, buyers may note that cars are becoming somewhat more expensive; indeed that goods and services generally are rising in price. But how many housewives and other shoppers will ever come to the full realization that the cars and other goods and services that the government withdraws from the market have been replaced by nothing except "national defense" and "general welfare"? Instead of cars and things, customers have "money" — of the type that only a national government with a fractional-reserve central banking system can create.

The great illusion is that all of this extra money is worth as much

as the missing car, and that it actually will be enough to pay for a car once the war or other national emergency is over. Under that illusion, a person can easily persuade himself that the cost of the war has been postponed and that the taxpayers of a future generation eventually may pay off the national debt.

Both Guns and Butter

The sad truth is that real wars are not waged with weapons and other resources to be produced or withdrawn from the market at some indefinite future date. The full cost of ammunition occurs, and the burden has to be borne, as economic resources are channeled to that purpose and before a shot can be fired. Every scarce commodity or service committed to war at that very moment diminishes the buying power of private citizens by a corresponding amount. If they have extra money in their pockets, it will be matched either by higher taxes or by higher prices — or some of both.

It's true that people may have both guns and butter if they will save enough for tools and working capital and work long and hard enough to produce all that is needed of both. And the patriotism stimulated by war may bring forth such extra effort and productivity. But it will never be true

that men can shoot guns or eat butter now that are going to be produced by a future generation. That is strictly an illusion, stemming from a person's faith that the money and credit created by government out of thin air is worth as much as the goods and services the government withdraws from the market. Upon such misplaced faith rests the sorry case for inflation.

If we will think in terms of goods and services, it is easy enough to see that the cost of things used now must be borne by us now and not later. The illusion that we can spend now and pay later, or that we can pass our

costs on to future generations, begins when we try to think in terms of money and credit and its manipulation.¹

Our debts cannot be escaped by us or be passed along to future generations. What we leave to our children, by our reckless spending, is a ruined economy! ♦

¹ It should be clear, of course, that this discussion does not pertain to private buying and selling on credit. Businessmen and their customers cannot create money and credit out of thin air. An individual may only borrow what someone else is willing and able to lend, and quickly reaches the limit of his credit if he cannot or will not meet his obligations. The point of concern, in this article as in the world of reality, is the tampering with money and credit that is perpetrated by the government and blamed upon the victims.

IDEAS ON LIBERTY

A House Divided

LIVING WITHIN our income as a government is no more complicated than it is for an individual to refrain from buying groceries and pretty clothes he cannot pay for. In many quarters this is an accepted objective of national tax policy. The trouble lies in the means of attaining this end. The difficulty of making both ends meet in governmental fiscal matters may be due partially to our setup which separates responsibility for budgets of expenditure from responsibility for budgets of income. Any family would likewise have difficulty balancing its budget if one member had full power over spending and another over income, and if each took the attitude that the other side of the account was something for the other person to worry about.

F. A. HARPER, *The Crisis of the Free Market*

The Rise and Fall of England

15. SOCIALISM IN POWER

IN JULY of 1945 an election was held throughout the United Kingdom. The war was over in Europe, but fighting still continued in the Pacific. Despite the fact that a National Government, headed by the Conservative, Winston Churchill, had been successful in prosecuting the war, the decision was made to have a partisan election. To the consternation of almost everyone, the Labour Party won overwhelmingly, returning 393 members to the House of Commons to 189 for the Conservatives and 58 for all other parties. For the first time in history the Labour Party came to power with a clear-

cut majority. Twice before, the party had formed ministries, but each time they had ruled with Liberal support. This time they had as clear a mandate to govern according to their ideas as they were likely to get. Socialism had come to power. In its election manifesto for 1945, the Labour Party proclaimed that it was "a socialist party and proud of it."¹

In several respects, the times had been propitious for the socialists to make their move. Clement Attlee, the Labour Party leader, must have realized this, for he had pressed for an early dissolution of the government and a new election.

Dr. Carson, Professor of History at Grove City College, Pennsylvania, will be remembered for his earlier FREEMAN series, *The Fateful Turn*, *The American Tradition*, and *The Flight from Reality*.

¹ Keith Hutchison, *The Decline and Fall of British Capitalism* (London: Jonathan Cape, 1951), p. 291.

The times were right, in the first place, because the English people had become accustomed to collective efforts during the war. They were acclimated to vast undertakings by government—to large-scale evacuations, to massive mobilizations of armed forces and their deployment around the world, to collective responses to air raids and the attendant black-outs, to concentration on war production, and so forth. One writer says, "All this produced a revolution in British economic life, until in the end direction and control turned Great Britain into a country more fully socialist than anything achieved by the conscious planners of Soviet Russia."² At any rate, they were psychologically prepared for the continuation of such undertakings in peacetime.

Moreover, during the war the government had either taken or promised measures moving in the direction of socialism. The most famous of the tacit promises was the one contained in the Beveridge Report, made public in 1942. It was comprehensive in what it called for:

. . . It covered all the known causes of the "giant" Want, by providing for unemployment benefit, sickness benefit, disability benefit,

workmen's compensation, old age, widows' and orphans' pensions and benefits, funeral grants, and maternity benefits. In addition to these financial provisions, the Report was also based on the assumption that a comprehensive health and rehabilitation service was to be established, its full resources available to all. . . .³

"Its popular appeal was immense, 250,000 copies of the full report and 350,000 of an official abridgment being sold within a few months. . . ."⁴ The thrust toward socialism during the war was, to a considerable extent, bipartisan. The Beveridge Report was authorized by the government, which was predominantly Conservative. Moreover, Anthony Eden, speaking for the Conservative Party, had this to say in the House of Commons, December 2, 1944:

We have set our hands to a great social reform programme . . . and even though there be an interruption it is the intention of each one of us who are members of the Government to carry that programme through. I have no doubt that . . . if a Labour Government were returned, that Government would put through what was outstanding in this programme. And I can say, on behalf of the Prime Minister, that we, as members of the Conservative Party, would

² A. J. P. Taylor, *English History: 1914-1945* (New York: Oxford University Press, 1965), p. 507.

³ Sidney Pollard, *The Development of the British Economy: 1914-1950* (London: Edward Arnold, 1962), pp. 348-49.

⁴ *Ibid.*, p. 350.

give them support in putting through that programme. . . .⁵

Both major parties, then, had done their part to prepare the people for great changes after the war.

The times were right, too, because the long-term trend toward greater and greater government intervention and control was well established. Since the early twentieth century, the government had become more and more involved in the economy: by minimum wages, by the dole, by "insurance programs," by heavy taxation, by monetary manipulation, by ownership of certain undertakings, by control and regulation. The minds of the people were set toward intervention: by the activities of the Fabians, by the Left Book Club, by the very popular Keynesian economics, and by the tendency of most of the literary cadre to write favorably toward it. Few in positions of leadership or authority were apparently able to think in other than socialistic terms. Conservatives sometimes held back against more radical measures, but they were hardly inclined to oppose the general trend.

One other condition made it relatively easy for the socialists at the end of the war: wartime controls were still in effect, and

could be continued with less resistance than if they were introduced for the first time.

On the other hand, whichever party came to power after the war could expect some rough going. This was especially true for the Labour Party, for socialists tend to take on responsibility for all economic effort, or at any rate to claim credit for any achievements. To take on the British economy — or lack of one — at the end of the war was not an enviable task. There had been considerable physical damage in Great Britain during the war. An estimated £1,500,000,000 damage had been done to factories, railways, and docks. Some 4,000,000 houses had been either destroyed or damaged.⁶ Eighteen million tons of shipping were lost, and only two-thirds of this replaced in the course of the war.⁷ According to one writer, "A large part of her industrial equipment was desperately in need of replacement, for instead of spending, as she would normally have done over five years, £1,000,000,000 to maintain and renew plants and factories in the civilian industries, she had spent this money on munitions of war."⁸

⁶ Francis Williams, *Socialist Britain* (New York: Viking Press, 1949), p. 13.

⁷ David Thomson, *England in the Twentieth Century* (Baltimore: Penguin Books, 1965), p. 202.

⁸ Williams, *op. cit.*, p. 13.

⁵ Hutchison, *op. cit.*, p. 285.

Foreign Trade Problems

The most serious difficulty confronting the British at the end of the war was in the realm of foreign trade. They had come to depend on imports for much that they consumed. "Nearly three-quarters of all the food she ate came from abroad, 55 per cent of her meat, 75 per cent of her wheat, 85 per cent of her butter, all of her tea, cocoa, and coffee, three-quarters of her sugar. Every year more than 20,000,000 tons of imported food had to be brought across the seas and unloaded at her docks."⁹

What made this situation pressing was that the British had long since ceased to balance these imports with goods exported. The difference was increasingly made up in recent decades by income from foreign investments, services such as shipping and insurance, and payments in gold. At the end of the war, Britain was deeply in debt abroad, most of the gold supply depleted, much of foreign investments sold to defray the expenses of the war. Moreover, Britain had for the two decades preceding the war been losing out to competitors in those things for export where she had traditionally dominated. (This situation was not simply a consequence of the war, however, or even particularly

such a consequence. On the contrary, in the years between World War I and World War II, the government pursued policies which made it increasingly difficult for British industry to hold its own.)

In addition, the British as victors in the war had heavy military obligations. They undertook to occupy a zone in dismembered Germany. They had heavy commitments in other parts of the world also, and were very soon confronted with volatile situations in areas to which their hegemony had long extended.

Even so, the leadership of the Labour Party plunged into socialization with a will, even with apparent alacrity. For more than a decade they had been committed to such a course if and when they came to power. And there was no counterbalancing power now to hinder them in their surge. A working majority of the House of Commons was all they needed. The Conservative Party was supine. The House of Lords was powerless to do more than delay or make helpful amendments. The monarchy was reduced to a symbolic role in affairs. Indeed, it was the King who announced to Parliament the course it was to pursue. He said, in part: "My Government will take up with energy the tasks of reconverting industry from the purposes of war to those of peace,

⁹ *Ibid.*, p. 11.

of expanding our export trade and of securing by suitable control or by an extension of public ownership that our industries and services shall make their maximum contribution to the national well-being."¹⁰ Such power as there was in the United Kingdom rested in the hands of a socialist ministry.

There were three main facets to the domestic socialization program in England: (1) the completion of the welfare state, (2) the nationalization of certain key industries, and (3) control over those portions of the economy which remained technically in private hands.

Completion of the Welfare State

The welfare aspect of socialization has probably received more attention generally than any other, though it is not clear that socialists would consider it most important. In any case, a full-fledged welfare state was established by several acts shortly after Labour came to power. Indeed, one act was passed in 1944 which should be mentioned. It was the Education Act. This act raised the school-leaving age to fifteen, provided "free" secondary education for all children, and set up a system of separating at the age of eleven

those pupils to go to preparatory schools and those to attend terminal schools.¹¹

The two most dramatic welfarist acts, however, were passed in 1946 under the Labourites: National Insurance Act and National Health Service Act. The National Insurance Act provided protection against various vicissitudes to that large portion of the public which had not been so protected as yet. It covered "every person who on or after the appointed day, being over school-leaving age and under pensionable age, is in Great Britain and fulfills such conditions as may be prescribed as to residence in Great Britain. . . ." ¹² These would then be eligible for unemployment benefits, sickness benefits, maternity benefits, and so on and on. The expenses were to be defrayed by employer, employee, and taxpayer (government) "contributions." The National Health Service Act was much more controversial. Many physicians opposed it. Even so, it was passed, and eventually went into effect in 1948. The act provided for free medical and dental services for everyone, and for those who provided the services to be paid by the government. It was intended

¹⁰ Alfred F. Havighurst, *Twentieth-Century Britain* (New York: Harper and Row, 1962, 2nd ed.), p. 369.

¹¹ See Stephen B. Baxter, ed., *Basic Documents of English History* (Boston: Houghton Mifflin, 1968), p. 281-82.

¹² *Ibid.*, p. 288.

as a comprehensive plan for looking after the health of those living in England and Wales.

Welfarist in nature also was the massive house building program undertaken under Aneurin Bevan, Labourite Minister of Health. The program tended toward nationalization of housing also, for it encouraged the building of rental housing and discouraged building for private ownership. It "was decided that the major part of the permanent building programme should be carried out through the local authorities, who would employ builders under contract to build houses to rent and who would be given financial aid by the Government in order that . . . the houses when constructed could be let on the basis of need at fairly low standard rents." To discourage private building, "builders were to be allowed to build for sale or under contract to private purchasers only to a restricted degree and only after a license had been secured from the local authority."¹³

Nationalization of Industry

Nationalization was undertaken with considerable vigor. The broad categories of industries nationalized were banking, power and light, transport, and iron and steel. The first nationalization was au-

thorized by the Bank of England Act passed in 1946; the last major one was authorized by the Iron and Steel Act of 1949. A fairly typical nationalization measure was the Coal Industry Nationalization Act passed in 1946 to go into effect January 1, 1947. "The act provided for a National Coal Board appointed by the minister of fuel and power and consisting of nine representatives of various functions within the industry (such as finance, technology, labor, marketing), who were to operate all coal mines subject to the general supervision of the ministry. The public corporation replaced more than eight hundred private companies, which surrendered their assets for a compensation. . . ."¹⁴ The way had been prepared for further consolidation and eventual nationalization of most of these industries by the cartelization that had taken place in the 1930's by government sponsorship.

It was not simply a matter of chance that these particular industries were selected for nationalization. Socialists may not know how to plan an economy to achieve their ends. The record would indicate that they do not. And British socialists had, in effect, organized irresponsibility on a large scale in these industries, for they had placed them under the control of

¹³ Williams, *op. cit.*, p. 127.

¹⁴ Havighurst, *op. cit.*, p. 370.

boards whose members had much authority but few responsibilities — responsibilities to stockholders, responsibilities to operate efficiently, even responsibilities to Parliament. Even so, British socialists demonstrated that they knew where the main arteries of a modern economy are. They meant to bring these directly into the hands of government agencies, and did.

Before spelling out the import of nationalization and indicating the extent of much more extensive controls, it will be helpful to review briefly the vision which the socialists had in mind. One of the men who participated in the early stages of this broad effort described it as a test and an experiment. He said, in part:

... Here at last a practical test of two vast and so far unproven assumptions is taking place. The first is that a planned socialist system is economically more efficient than a private-enterprise capitalist system; the second is that within democratic socialist planning the individual can be given broader social justice, greater security, and more complete freedom than under capitalism.¹⁵

To make this test, planning has to reach through to every ligament of an economy. The above writer's description suggests the extent of such planning:

The central planning organization, for example, is required to estimate the total number of men and women available for employment, the amount of essential raw materials such as coal, steel, and timber likely to be available from all sources, the total national production of goods possible in the current situation, and how this productive effort should be divided between home consumption, exports, and capital investment.

Having made this analysis, the Planning Board assesses industrial priorities in the light of it; decides what proportion of the total working population is needed for national security in the defence services, what proportion in the public and administrative services, how many in trade, industry and agriculture in order to reach the production targets set, and what general division of manpower there ought to be between export and home production, and between the productive and distributive trades. A similar assessment of the correct distribution of basic raw materials between various types of users is also required. . . .¹⁶

In short, the determination of what was to be done in the economic realm was to be taken out of the market and made by government officials. To accomplish this — if it could be done — it would be necessary to have full control of key industries. The key industries of a modern economy

¹⁵ Williams, *op. cit.*, p. 5.

¹⁶ *Ibid.*, pp. 87-88.

are, undoubtedly, banking, power and light, transport, and iron and steel. No modern enterprise can operate effectively without the use of one or more, and usually all, of these goods and services. Power is essential; capital is required (not necessarily borrowed money, but money, and central monetary authorities can either maintain the money supply or destroy it); transport must be had; and equipment and housing made in some part of iron and steel are practical necessities. The government which, in effect, possesses these essential goods and services can dictate to virtually all other undertakings.

Other Controls and Regulations

Of course, British socialists did not content themselves with nationalization. Additionally, a vast network of controls, subsidies, priorities, prescriptions, proscriptions, and regulations were extended over the remainder of industry and agriculture. It will have to suffice here to call attention to some of these.

One of the most dramatic examples of compulsion can be examined in the regulation of the location of industry. The compulsion was provided for by a Distribution of Industry Act, the Town and Country Planning Act, and procedures adopted by the Board of Trade. The main impetus

was to have new industries located in areas where labor was most abundantly available—to move factories to the workers. The Distribution of Industry Act aided by making loans, by giving financial assistance to companies that would open factories in desired areas, and by the use of tax monies to build factories for lease. This, in itself, was largely an effort by the government to influence the location of industry. But stronger weapons were at hand. In order to build a new factory, it was necessary to get a license from the Board of Trade. The Board of Trade could, in effect, veto a plan to build a factory anywhere. This was bolstered by the powers exercised under the Town and Country Planning Act: not only were new towns planned but also building activity was directed.¹⁷

Economic activity of every sort was minutely regulated. Wanted “production was encouraged; luxury production was limited. Licenses were required to export raw materials and any manufactured articles . . . needed at home. Domestic consumption was regulated by rationing, subsidies and price controls. . . . New industrial enterprises seeking capital had to be approved by a government committee. . . .” There was much more,

¹⁷ *Ibid.*, pp. 93-94.

of course: "paper control was directed by the manager of a large paper manufacturing concern; matches were controlled by an official of the largest manufacturer. . . ." Moreover, "Treasury budgets were drafted with a view to controlling investment. . . . For foreign travel, limitations, changed from time to time, were placed on the amount of cash which could be taken from the United Kingdom."¹⁸ The bureaucrats made ubiquitous attempts to control everything.

As for agriculture, it was decided not to nationalize the land but to regulate and control activity in this area. The Ministry of Food was authorized to buy agricultural produce and became, in effect, the sole market in which farmers were to sell. As the only buyer and seller, it proceeded to set prices to the farmers, on the one hand, and to the consumers, on the other. In general, the Ministry paid high prices for products wanted and sold them at a loss, the aim being not profit but to encourage the kind of production and consumption wanted. Agriculture was controlled "by a range of other measures, such as the giving of acreage grants for particular crops, financial aid for improvements, loans to agricultural workers to become farmers on their

own account, and the establishing of pools of labour and machinery upon which individual farmers can call during sowing and harvesting seasons. There is also power to give directions to farmers to plough up land and grow particular crops."¹⁹

Finally, a large portion of the income of Englishmen was "nationalized" by way of taxation. Taxes were excruciatingly high under the Labour government. An economic historian indicates that the government took 37.7 per cent of the value of the gross national product from the people in 1946.²⁰ The income tax was confiscatory. "Here is a story which shows it: a big American business which had decided to pay the head of its English subsidiary a salary of 20,000 dollars (£5,000) was informed that, owing to the Income Tax, the recipient would in fact touch half only. Not to be put off, the American business asked how much it would need to pay its servant to ensure him £5,000 net. The answer came back — £50,000, the figure which will, after taxation, leave £5,093 10s. 0 d."²¹

Dependent and Stifled

Two things should be immediately apparent. The first is that socialism had made the English

¹⁸ Havighurst, *op. cit.*, p. 384.

¹⁹ Williams, *op. cit.*, p. 98.

²⁰ Pollard, *op. cit.*, p. 366.

people dependent upon government. They were made dependent for food, for markets, for education, for health services, for licenses, for loans, for subsidies, for jobs (it became necessary to belong to a labor union to work in unionized employments), for maternity benefits, for funeral subsidies, for unemployment benefits, for disability payments, for building permits, for the amount that could be taken abroad, for priorities for buying, for authorizations to sell, for houses in which to live (in the case of numerous renters), for broadcasting facilities, and so on. Such dependence has not customarily been known as freedom; the generic term for it is bondage.

Secondly, British economic activity was strait-jacketed by government ownership, control, and regulation. Such overall bureaucratic direction greatly reduced the number of minds to cope with economic tasks and the number of ways that may be used to deal with them. When enterprise is free, when men receive the rewards of their labor, every man may use his initiative, ingenuity,

and energy to grapple with the economic problem of scarcity. But under state dictation men are not permitted to exert their energies as they see best. If they perform at all, they are to perform as they are directed, with whatever will they can muster for the effort. Under socialism, the English people were told what to produce, where to produce it, where to sell it, where they could buy, and when if at all to undertake it. Bureaucrats were free to plan; the people were free to obey.

The economic situation of England was precarious enough in 1945, as has been pointed out. The English people had a big job ahead of them to recover from the effects of the war and to regain their position in the world. It was task enough to challenge the initiative, ingenuity, and energy of the whole people. Unfortunately, they decided to strait-jacket a large portion of the population and to depend upon bureaucrats. It was as if a drowning man should encumber himself with balls and chains fastened to one arm and both legs, leaving himself only one arm with which to swim. In such circumstances, England's fall was precipitate. ♦

²¹ Bertrand de Jouvenel, *Problems of Socialist England*, J. F. Huntington, trans. (London: Batchworth Press, 1949), p. 206.

*The next article of this series will describe
"The Fall of England."*

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Progress

NOWADAYS we tend to equate progress with improvements in our material standards of life. As a nation we measure our success by how fast our total production is increasing, or by the number of motor cars for every 100 people.

But isn't this a rather limited, superficial view of progress? A man is not necessarily a better man because he can afford caviar and champagne, or because he has two cars instead of one. In the end the only true measure of progress is whether we are becoming better as human beings.

This doesn't mean that material prosperity is unimportant. But its true purpose is not to enable man to wallow in luxury, or to live a life of idle indulgence. It is to give him a better opportunity to cultivate his mind and spirit, to improve his understanding, to seek wisdom, to enlarge his sympathies and sense of compassion, to develop his character.

Man is more than a pig at a trough. He needs higher goals, a nobler purpose, than the mere satisfaction of his bodily appetites.

Indeed, as the material things available to him multiply, the greater can be his peril, the more urgent his need to take stock, to concern himself also with things that belong to the realm of the mind and spirit. An excessive absorption with physical satisfactions and pleasures led to the downfall of many of the great civilizations of the past.

Material advancement can be the means to a better way of life. It can be the instrument of progress. But it is no more than the instrument. "The quality" of our life is more important than "the quantity."

Real progress lies within man himself, in the cultivation of his best instincts and the suppression of his worst. Real progress is self-development in the highest sense, and that is something for which, in the final analysis, each individual is himself responsible. ♦



AS TOCQUEVILLE SAW US

ALEXANDER WINSTON

MY FRIEND had trimmed me at squash, and I tried to recover a bit of self-esteem in the coffee shop afterward. "I've been reading Tocqueville," I remarked, counting on his blank look.

"Read him in college," he picked me up. To prove it he spelled out the name. "Alexis, wasn't it?"

"Yes," I growled into my chowder bowl, "Alexis."

Small wonder, really, that my friend had run across *Democracy in America*. Since its publication in 1835 it has ranked as a classic appraisal of the American scene. The freshness of its observations show that although much water has passed under the bridge in our national history since that date, the same river still flows — noisy, turbulent, and productive. This French aristocrat praised the new nation even when he was not sure that he liked it. Yet he suffered little from bias and tried to under-

stand our baffling ways; his subtle mind possessed the paradoxical but precious gift of detached engagement with his subject; and he commanded a literary style of limpid elegance. Altogether, an admirable critic.

Democracy in America is provocative even when its conclusions are off-target. And occasionally Tocqueville did miss. He insisted, for one thing, that equality is our ruling passion. "Equality is their idol," he declared. "Nothing can satisfy them without equality, and they would rather perish than lose it."

But if we examine equality with care, we see that in its political form it is always abstract; and no one, above all a pragmatic American, is likely to man the barricades for an abstraction. In a strict sense, we are equal only when we fall into the same general class. Thus, all apples are equally apples (though no two are identical); all humans human, from a New Guinea Stone-Age man to Einstein; every couple is a mem-

Dr. Winston, after twenty-five years of parish ministry, now devotes full time to lecturing and writing, with emphasis on history. His latest book, on privateering and piracy, is soon to be released by Houghton Mifflin.

ber of the class of two; and noses that are deliciously snub, pointed, flat, or bony as a hawk's, answer equally to the single word "nose." Hardly a cause for pride. Would you lay down your life for it?

Political equality narrows the scope of this general principle without reducing its abstractness. In their impartiality, our rights and liberties apply in the same way to all, and therefore, by their nature, transcend the individual. Every citizen (whoever he be) has the right to worship, speak, assemble with his fellows, vote, and petition for redress of grievances; every citizen (whoever he be) has the protection of the law in his person and property, and shall be deprived of these only by due process, at the hands of a jury of his peers. Cherished rights, all. But when one of our forefathers oiled his musket and whetted his sword to gain them, he fought for *his* rights. The equality was incidental, as a correlative act of justice, and to guarantee the preservation of those liberties to each by assuring them to all.

With basic rights secured, Americans have lately pushed the idea of "equal opportunity." We recognize that a spindly youngster from Appalachia or a ghetto child may be handicapped through no fault of his own; that Negroes have been confined to inferior edu-

cation, poor housing, and menial jobs; that Puerto Ricans labor under the difficulty of language, women are down-graded in the pay scale for no reason but their sex, American Indians wear out lives of poverty and ignorance on neglected reservations, and so on.

In recent decades a flood of money and energy has poured out in an effort to alleviate the condition of these minorities. The middle-class American groans at the burden, but he does not seriously doubt his obligation. In the race of life everyone deserves a fair run, we maintain; no one, therefore, should be allowed to jump the gun because his aunt married the starter, or shove his rival in the homestretch because the finish judge owes him money. "I must say," commented Tocqueville, "that I have often seen Americans make great and real sacrifices to the public welfare; and I have remarked a hundred instances in which they hardly ever failed to lend faithful support to each other."

Vital as they are, equal opportunities never quite reach the individual. They wait for him, as a voting booth waits for the voter, a jury for the accused, a job for the man. Our laws of fair employment, reapportionment, open housing, or bussing school children, are little more than permissive. They

open up residential suburbs without providing money to buy a house, they make jobs available without necessarily training for them, extend the franchise but do not educate the voter to use it, and bus underprivileged children to overprivileged schools in the hope — but only the hope — that they will learn more when they get there. Legislated opportunities fall on everyone like rain. Never mind your name, just enter your Social Security number. What does it matter that you grow African violets or collect Bach or sleep on your left side or prefer hamburgers rare or usher in church or love your wife or weep for a dropout child or have a cataract coming on an eye or once felt God so close that you could touch Him with your hand? Just write your number in this space where my finger is; thank you, yes, you qualify. Hardly a ruling passion.

Is there, then, no equality that recognizes the person, with all his singular hopes, fears, ambitions, and foibles? There is, indeed, and it is more precious than rubies. Every man wants to be respected for himself, without regard to his birth or station. That is why the founders of this nation barred titles of nobility and hereditary privilege; they had had enough of peasants knuckling their caps when the gentry rode by. Men will

endure poverty and pain without whimpering, but not contempt. The honest carpenter deserves the same courtesy as the honest president of a giant corporation. Every rank of life has its integrity.

Within the intimate circle of the family this respect intensifies to love. Love is perfectly individual; it feeds on particulars, on what distinguishes the loved one from every other; and yet, within the family, who can claim more or less of it? When I was a small boy my parents would tease me by asking which one of them I liked the better. The question embarrassed me hugely, and I hastened to cry, "Both the same!" A mother loves her different children "all the same," and they count on it. Any other strict equality between individuals turns into despised sameness. We are not flattered to be mistaken for someone else, nor told that our names are the same; we shudder at drab rows of look-alike houses, and if two ladies appear in identical dresses, the party is ruined for both. But in the respect of our fellows, family love, and God's beneficence, we ask only equality.

Now we come to the heart of the matter. Peel from a man his artifices, habits, skills, philosophies, and loves, as you would an onion, until you expose his core,

and you lay bare not the desire for equality or political liberty, but an essential need for personal freedom. He must be able to choose among ends which he holds good, intelligently consider the means effectual to the chosen end, and have the power to use those means to that end. In the free act he attains his selfhood, his individuality, his lonely grandeur. Otherwise he is no more than a thumbel mammal or, like the galley-slave chained to his oar, simply a machine that sweats. The straight path of instinct or servitude is now full of forks, and the free man may agonize under the pressure of decision, but he will not go back. Freedom is his ruling passion.

Widely distributed freedom generated on this continent a loose-knit, flexible, competitive society with tendencies the very opposite of static equalism. "The spirit of improvement is constantly alive," Tocqueville reported. He marveled at its audacity. "The inhabitants of the United States are never fettered by the axioms of their profession; they escape from all the prejudices of their present station; they are not more attached to one line of operation than to another; they are not more prone to employ an old method than a new one; they have no rooted habits, and they easily shake off the influence which the habits of

other nations might exercise upon them, from a conviction that their country is unlike any other, and that its situation is without a precedent in the world. America is a land of wonders, in which everything is in constant motion, and every change seems an improvement. The idea of novelty is there indissolubly connected with the idea of amelioration. No natural boundary seems to be set to the efforts of man; and, in his eyes, what is not yet done is only what he has not yet attempted to do."

The scene struck Tocqueville as both awesome and monotonous, like an unending sea of choppy waves, for radical democracy is bound to do some leveling down while it levels up. The government must tax the luxuries of the more affluent if it is to provide necessities for the poor, so who can build a Versailles? Educational institutions that admit less qualified students will surely dull the intellectual edge of the brilliant ones. Art and craftsmanship may be good in a democracy, but seldom match in polish the single bauble created by the aristocratic artisan for an exacting lord. The result is a dead level of achievement higher than the worst possible and lower than the best desired.

Tocqueville missed the concentration of power that made kings

and nobles heroic figures, with their romantic gestures and memorable follies, and in place of these saw the petty goals, cheap tastes, and drab sameness of an egalitarian society. Historians of democracy, he noted, record the massive flow of whole peoples, and look for impersonal causes, whereas historians of Europe's monarchies recorded the lives of great men and looked for motives. The citizen of a democracy, thought Tocqueville, is extremely enterprising within the depressingly minute confines of his private affairs. Lacking the impressive authority that permits a duke to summon armies and topple thrones, the democrat keeps his nose glued to the account book. His low aims and mediocre desires make mere animal comfort seem to him Paradise regained; to Tocqueville it was hell, with plumbing.

The general leveling-out, he feared, coupled with the dispersion of power throughout the citizenry, invited the most insidious of despotisms—that of the majority. The majority is always right in a democracy, and its influence on the common man is stealthy, pervasive, and, above all, psychological. It doesn't put the rebel to the rack, but ostracizes him, for rebellion against the infallible majority is rebellion against the whole state. The small fragments of power

scattered throughout the population must flow inexorably into the central government if they are to be concentrated on a sufficient scale to do anything. The danger is that after the citizens have cast their periodic votes, they will settle back into the comfortable illusion that they are still exerting their sovereignty, while in fact the government is supervising them with smiling good will, like the Big Brother of Orwell's frightful vision, keeping them happy and helpless, protecting them in their ease from either the hazards of action or the rigors of thought. "Men would not have found the means of independent life; they would simply have discovered (no easy task) a new physiognomy of servitude."

Expressing fears is a pastime which has no known limits. Tocqueville also viewed with alarm the possible abuse of unrestricted assembly, apathy in the electorate, a military coup, armed revolt by black slaves, a separate nation in the agrarian South, and even a peaceful take-over by some resolute minority.

He had a sharp eye for incipient danger, we must admit. In abuse of assembly, students now bivouac in the private offices of college presidents. Black Panthers make sounds like armed revolt. Government grows ever more gar-

gantuan and minutely regulative. The erstwhile stalwart American too often sums up the good life as two cars, color TV, and Medicare. And though the Founding Fathers dared to write our Constitution behind locked doors, the modern politician frets about his image and keeps his ear cupped for the latest whiff of the consensus.

Most of Tocqueville's troubles (as Mark Twain would put it) never happened, never shattered the republic, for a reason so simple that it sounds preposterous, namely, that the people wouldn't put up with it. For the viability of any social system depends, in the last analysis, upon the mental habits of its citizens. Tocqueville suggests this stubborn factor when he contrasts the divergent histories of the Anglo-Saxons (as he called them — and they were) in North America and the Spanish to the south, or, again, when he attributes the superiority of America's merchant marine to the mentality of her seamen. In estimating any nation's capacity to achieve, or to change in a given direction, ingrained attitudes of mind must be reckoned with. "We thought we could jimmy things around here and pf-f-f-f! the new age," a social worker once told me in Sicily. "We found out that you have to change their minds, too. That's slow, and it's tough." Lib-

erties don't come down like manna from heaven; they are won, and their responsibilities discharged, by free men.

Royal tyranny vanished in England because the English commoner just would not put up with it. Commoners took the field against Charles I and beheaded that troublesome monarch; later they drove James II from the throne and in his stead elected a Dutchman willing to respect Parliament's prerogatives. In the same century commoners settled New England, resolved to extend their mutual privileges; they worked the land together, shouldered their muskets with a single motion in the face of danger, formed governments, built schools, and worshipped side by side in the same pew as though it were the most natural thing in the world. And it was, since they thought it was. Every colonist granted justice to all because he expected it for himself. He spoke his mind as conscience bade him, and the only way to silence him was to kill him. He was his own man.

Fortunately, the right mind can be as tenacious as the wrong one. The American colonists had the right mind for planting the seeds of democracy on these shores. If we can keep that mind, we will keep a free society. ♦

Essentials of Economics

IF YOU WANT instant enlightenment, Henry Hazlitt's *Economics in One Lesson* is still the desired text. If you want enlightenment in great depth, there is Mises' *Human Action*. But if you are looking for something in the "in between" category, the new Foundation for Economic Education edition of Faustino Ballvé's *Essentials of Economics: A Brief Survey of Principles and Policies*, translated from the Spanish by Arthur Goddard (\$3.00 cloth, \$1.50 paper), is your meat.

Dr. Ballvé was a Spaniard, born in Catalonia, who became disillusioned with his country in the thirties, when the life choices of anyone who wanted to stay home in Spain seemed to be narrowed down to the either/or of Fascism or communism. Having studied economics in England, where he managed to resist the Fabians, Dr. Ballvé had had some acquaintance with the idea of libertarianism-under-law that one used to think

of as peculiarly Anglo-Saxon. He took his philosophy with him to Mexico in 1943, where he wrote *Diez lecciones de economia*, or, as it was translated for the French edition, *L'Economie vivante*. The English language edition, which was first published by Van Nostrand in 1963, includes some substantive changes made for the French public.

Dr. Ballvé must have had his Catalonian brothers in mind when he wrote his book, for his clear distinctions seem directed to the emotional libertarian, particularly common in Latin countries, who tends to think of freedom as a synonym for anarchy. The emotional libertarian goes in for syndicalism. But syndicalism, as Dr. Ballvé saw it, resulted in group interferences with the market, and pushed an economy in the direction of corporativism, which demands state control of the syndicates and so negates the original impulses of anarchistic individual-

ists. Having forsworn the aberration of his countrymen, who seem to have a genius for turning things into their polar opposites, Dr. Ballvé was in an exceptionally good position to bring the principles of classical liberalism to a Latin audience.

Freedom of Choice

Classical liberalism presupposes rights, which must be guaranteed by law and protected by the courts. In economics, the right to life, which is fundamental, becomes the right to own and to exchange what one owns in the free market if one so chooses. (How else is one to support life as a right, not as something that one lives on sufferance of a tyrant?)

In translating his liberalism into the terms of economics, Dr. Ballvé refuses to talk about that unreal abstraction, the "economic man." Like Mises, Dr. Ballvé thinks that all choices, whether economic or not, vie for an individual's time and energy. Any choice of any kind affects the market: as Dr. Ballvé puts it, "the retirement of an entrepreneur of genial disposition can bring fortune or misfortune to many other entrepreneurs, just as the indifference of a truth-seeker to monetary considerations can, at a given moment, make both him and others wealthy." Thus there is a compe-

tition "not only among vendible goods, but also among things that are, as we commonly say, 'beyond price.'"

The choices of men cannot be predicted; moreover, they cannot even be averaged. So there cannot be any "mathematical economics" apart from the science of statistics, which tells you what has happened, not what is going to happen. The future is unknown; it can be pushed into utterly unforeseeable forms by invention, imagination, the spirit of adventure, the willingness to take chances. Value is a subjective matter which becomes objectified in price as people trade "disutilities" (for them) for "utilities" (which are the other fellow's "disutility"). You get rid of something you value less in order to pick up something you value more. And your judgment may or may not reckon with the "labor hours" it takes to make something, or with "intrinsic" value. The higgling of a whole slew of subjective desires takes place within the context of the available purchasing power (money and credit), and it is the "market" that makes the prices.

The state, of course, can inflate or deflate the prevailing price level by manufacturing or destroying money. Governments make depressions by following interventionist policies that expand credit without

sufficient knowledge of what people actually want. Intervention, if it does not make a lucky guess, provokes malinvestment. In socialist nations this fills the storehouses with unwanted goods; in capitalist and semicapitalist nations, it piles up inventories that have to be sacrificed at a loss.

Consumer Oriented

Everything is fluid in Dr. Ballvé's world. Wages are not paid out of any fixed "wage fund" in accordance with an "iron law of wages"; it is the consumer, in the last analysis, who pays the worker as well as the investor and the entrepreneur. The consumer makes the demand that brings out the supply, again within the context of the availability of money, goods, and services. Just who will get what out of the cycle of production, distribution, and consumption depends on many variables, none of which can be accurately predicted. The willingness of the working class to reproduce itself depends on general cultural considerations. "Poverty" is a subjective concept; what was "riches" to a courtier in the time of Louis XIV would be considered "poverty" by many today.

Dr. Ballvé is particularly good in his description of the economic process as a seamless web. Production, distribution, and consump-

tion cannot be split apart. The production, in accordance with Say's Law of Markets, releases the purchasing power (wages, interest, dividends, profits) sufficient to clear the market, with distribution figured as a cost. The numerous time lags that separate the act of production from the act of consumption overlap. There can be no such thing as general "overproduction," although entrepreneurs may make bad guesses in individual instances that require a liquidation of inventories at a loss. If the state does not interfere with the rhythmic pulsations of the economic process, unemployment in specific industries will quickly disappear as the workers who have been temporarily inconvenienced by bad guesses go to work for entrepreneurs who are gifted with better foresight.

International Trade

The effort of separate nations to solve their problems on a socialist basis (which comes down to "national socialism" even though Marxists pay lip service to "internationalism") leads to national impoverishment, for, if one cannot import what other people can make more cheaply, one is necessarily forced to forego manufacturing the exports which would buy the most for the least in the world market.

All countries have to import food and raw materials and manufactured goods if they wish to live well; the idea of raising bananas in the temperate zone, or making automobiles in the desert, is self-evidently idiotic. The law of comparative cost always holds. So, when nations begin worrying about the "balance of trade," they are saying, in effect, that the price of a currency expressed in an exchange rate is more important than bananas, or automobiles, or whatever. This is a perversion that sacrifices the consumer to an abstraction; better let the currency seek its own level in the world's money markets.

Dr. Ballvé's description of a consumer-directed economics is not a description of the contemporary world. Governments everywhere seem to be in competition to promote a maximum amount of malinvestment by their constant monetization of new debt. Because

of this, libertarians and conservatives have been predicting for years a recurrence of the 1929 crash. It doesn't happen. But what does happen is that individuals are constantly forced to surrender more and more of their liberties while the governments go on inflating their currencies. The "controlled economy," as Dr. Ballvé says, "drifts inevitably toward communism." And, as Hayek said, "the worst get on top," for the act of controlling requires tough individuals who are willing to use the club, the knout, and the jail sentence to get their way.

Dr. Ballvé's little book runs to 99 pages of text, plus the space devoted to a foreword by Felix Morley and the prefaces to both the English and the Spanish language editions. For those who can't find time to read Mises' *Human Action*, Dr. Ballvé is a good introduction to the "science of choice." ♦

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